

# The Incorporated Accountants' Journal

THE OFFICIAL ORGAN OF



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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

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## Professional Notes.

It will be remembered that the Company Law Amendment Committee in their report dealt with the position of creditors in voluntary winding-up, and made proposals in order to give them more effective control in voluntary liquidations. It recommended that in all cases where the directors do not, at a board meeting held before the notices of the meeting at which a resolution for winding-up is to be proposed are sent out, make a statutory declaration that the company is, in their opinion, able to pay its debts in full within a period not exceeding six months after the commencement of the liquidation, a meeting of creditors should be summoned by notice issued at the same time as the notices to the shareholders.

It was further recommended that the creditors' meeting should be held on the same day as (or at latest the day after) the meeting of the shareholders at which the resolution for winding-up is to be proposed, and that the meeting of creditors (to the exclusion of the shareholders) should either appoint the liquidator or nominate one of their members to apply to the Court for a compulsory order. There are other recommendations made by the Committee in regard to a director of the company presiding over the creditors' meeting, production of a full statement of the company's position together with a list of creditors and power to appoint a committee of inspection. Another proposal of the Committee was in favour of the amendment of the winding-up rules so as to enable a creditor to give a general proxy to a person whether in his employment or not.

We are informed that the recommendations of the Government Committee in regard to voluntary liquidations have been receiving careful attention from a Committee of the Council of the Society, and that further action on the matter will be taken with the object of securing some amendment in the Government's Bill should it follow closely on the lines of the Committee's recommendations. The view of the Society's Committee is that there is no widespread dissatisfaction with the present position, and it is maintained that evidence of malpractice or neglect on the part of liquidators was not sufficient to necessitate the complete revolution in the procedure contemplated by the Departmental Committee.

The Society's Committee offer no objection to the principle that a company which is clearly insolvent should be administered by a representative of the creditors, but they point out the difficulty which will be encountered when two directors, at least, are called upon to make a statutory declaration that the company is, in their opinion, able to pay its debts in full within a period not exceeding six months after the commencement of the liquidation, and that in the absence of such declaration the company is to be deemed to be in a state of insolvency. The Society's Committee say that few responsible Chartered or Incorporated Accountants would care to take the responsibility of advising that such a declaration should be made. It is urged as a matter of experience that many a company which ultimately pays its creditors in full and makes a return to the contributories could not possibly do so within six or twelve months, owing to difficulties and complexities in connection with the business or with the sale of the undertaking of the company as a going concern, and it is contended that in addition to being unworkable in practice, the Committee's proposals

are likely to have the effect of bringing liquidations of companies largely into the hands of trade associations and their nominees rather than into the hands of responsible practising accountants whom it is the practice to appoint as liquidators under the existing law.

On the other hand, in fairness to the Government Committee, it should be pointed out that the Public Prosecutor, Sir Archibald Bodkin, in his evidence before the Committee, made some strong observations in regard to fraudulent one-man companies and said that the position of a liquidator in a voluntary liquidation was left too indistinct by the law as it now stood. He stated that he had met with cases where it was fairly obvious that the liquidator was attached to prominent persons in the company, and had not been astute to discover what he must have suspected in connection with the company's affairs. On being questioned by the members of the Committee, Sir Archibald Bodkin said "If the liquidator were a member of one of the honourable Societies of Chartered Accountants or Incorporated Accountants I have no doubt he would be more alert, but there are a number of people appointed as liquidators who have not the sanction of belonging to such a Society." The difficulties must be apparent, but we hope that the Board of Trade will see its way to make such recommendations to Parliament in the forthcoming Bill as will meet all legitimate criticism from members of the profession who thoroughly understand the subject, and are entitled to have their representations weighed.

A circular issued in 1924 by the National Union of Clerks and Administrative Workers has come into our hands for the first time. It is stated that the union had recently started organising clerks employed by practising accountants, and had already entered into agreements for minimum salaries for some of their staffs. "We are proposing," said the union, "to issue to all trade unions, labour organisations, and societies appealing to the labour movement for support, a White List of practising accountants who not only pay salaries based upon our minimum rates, but whose clerks are members of the National Union of Clerks and Administrative Workers." Some years ago we heard of a "Guild of Accountants' Clerks," but hitherto we have not come across the propaganda of this union. It would be interesting to know how the union assessed the value of the services of clerks who are Chartered or Incorporated Accountants.

The Incorporated Accountants' Students' Society of London has issued its syllabus of lectures and

discussions for the Spring Session, 1927, which opens on February 9th. Between that date and March 29th eight meetings will be held, to be addressed mostly by well known Incorporated Accountants. The concluding address of the session will be given by Sir Henry Slessor, K.C., M.P., who was Solicitor-General in Mr. Ramsay MacDonald's Government. Sir Henry Slessor, in giving valuable help to the Students' Society, is following the example set by another ex-Solicitor-General and other leaders of the Bar.

The methods of teaching mathematics in schools under the stress of preparation for examinations was discussed by Professor M. J. M. Hill, the President of the Mathematical Association, at the annual meeting held last month. He said that, by reason of the great mass of routine that had to be absorbed, there was too much teaching by rule and too little by principle. The rule was in the nature of an order; it might be adequately or inadequately explained, or delivered *ex-cathedra* without any explanation at all. The objection might be raised that the teacher was obliged to teach the subject so that the pupil could acquire facility in using it as a tool, but unfortunately facility was often acquired at the expense of forgetfulness of the reasons on which the rules were founded. The price was too great to pay. The Professor added that if a few minutes in each lesson were devoted to the discussion of the principles, the pupils would realise that they were being treated as reasonable beings and not as machines. We cordially endorse this view. A formula acquired without knowledge of the underlying principles is always dangerous in its practical application, and moreover contributes nothing towards the training of the mind, which should be the root of all teaching.

Mr. F. C. Goodenough, the Chairman of Barclays Bank, in his address at the annual meeting gave a comprehensive review of the year's finance, and concluded with some interesting observations in regard to the prospect of trade revival in the near future. He said he did not wish to hold out unduly sanguine expectations, but he thought there was definite evidence that the purchasing power of the world was increasing. The past year had emphasised certain fundamental truths, the principal of which were the ever increasing interdependence of industries, the futility of strikes and lock-outs, and the need for constant progress in industrial organisation and equipment. If these lessons had been learned, then, in his opinion, the outlook now was more promising than at any time since the war.

Professor T. E. Gregory, the newly appointed Professor of Banking at the London School of Economics, delivered his inaugural lecture last month on the subject of "The Social Function of the Banker," and in the course of his remarks strongly criticised the published balance-sheets and statistics of English banks, which he said did not supply sufficient information. In fact, he went so far as to describe it as a disgrace to the banking profession. The Chairman of the meeting (Sir John Ferguson), however, did not quite agree with him. While admitting that some further particulars might be given, he said there were certain things which in the best interests of the bank ought not to be divulged. He would abhor the idea of publishing the fact if, for example, assistance was being given to a foreign bank, and he did not think the facts regarding industrial loans ought to be published, although he did not see any objection to banks giving a subdivision of bills, stating which were trade bills, finance bills and Treasury bills. In some instances hidden reserves were maintained to encourage an industry which had fallen on evil days, and he knew many instances of advances made by banks to companies which no sane man would regard as entirely safe. These advances were, however, in the best interests of the trade of the country.

A proposal to have cheque forms printed on post cards, with the object of saving time, trouble and expense in sending them through the post by letter, has been made by someone possessed of an ingenious turn of mind. It is stated that, after consultation with bankers' representatives, the author of the scheme designed a card on which is printed a date line, the name of the bank on which the cheque is to be drawn, and the instruction "Pay to the addressee of this card or order . . ." The intention is that the drawer should fill in the date and amount and sign over a twopenny stamp to cover the cheque duty, and post the card as an ordinary post card. In the first place it appears that the Post Office regulations might require such a card to bear a registration fee, but there is the stronger objection that there would be great risk of, and temptation to, dishonesty if money were sent in this open manner, and it is to be hoped that the proposal will not materialise.

The Judicial Committee of the Privy Council had before them last week an appeal from New Zealand in relation to the case of *Doughty v. The Commissioners of Taxes*. The point at issue was quite a simple one, but unfortunately some of the facts are not made quite clear in any of the reports we have seen. Two partners of a firm converted their business into a limited company, of which they were

the only shareholders, and the purchase price payable by the company was £35,000 in excess of the sum standing to the credit of the two capital accounts in the firm's balance-sheet. In order to balance this figure the item of "Stock in hand £43,000" was replaced by an item of "Stock and Goodwill £78,000." Of this figure £20,000 was taken to represent goodwill. The stock taken over by the new company was thus written up by £15,000, which figure the Inland Revenue claimed to assess for income tax. The Chief Justice for New Zealand held that it was not assessable, but this decision was reversed by the Supreme Court of New Zealand. The Privy Council have now re-instated the finding of the Chief Justice and exempted the £15,000 from taxation. What is not clear is how this figure was treated in the trading account of the firm on the one hand, and of the new company on the other. Presumably, the trading account of the firm was not altered, and if the higher figure was debited as the starting stock of the new company the profits of the first year would have been reduced by that amount, which hardly seems logical when the parties were, in fact, selling to themselves. The Privy Council appear to have dealt with the matter on the basis that it was merely a book entry, and that a book entry could not of itself result in a profit.

An interesting point was decided by the House of Lords in *Kirke's Trustees v. The Commissioners of Inland Revenue*. The Income Tax Act, 1918, Rule 4, Cases I and II of Schedule D, provides as follows: "Where any person has received repayment of any amount previously paid by him by way of Excess Profits Duty, the amount repaid shall be treated as profit for the year in which the repayment is received." In the case under notice the repayment was received after the trustees had disposed of the business and were therefore not carrying on a trade. They accordingly claimed that they were not assessable, but their Lordships refused to accept this view and held that the profit was assessable under Case VI, their opinion being that Rule 4 above quoted applied to the whole of Schedule D on the ground that it was a re-enactment of sect. 35 (1) of the Finance (No. 2) Act, 1915. It would thus seem that in the consolidating Act of 1918 the rule in question should not have been introduced as applicable to Cases I and II only.

Those who are concerned with income from foreign possessions in the form of stocks, shares, and rents, should take note of the decision in the case of *Ormond Investment Company, Limited, v. Betts*, which will be found in our Legal Notes this month. Income of this character is assessable on a three years average, and the effect of the decision was



that although the company deriving the income was not in existence until the year in which the income was received, the average nevertheless applied. The result was that, there being no income in the three preceding years, no liability to assessment arose on the first year's income.

Traders have for long felt that they are exposed to unfair competition from co-operative societies owing to the privileged position which the latter occupy in relation to income tax. A memorandum issued recently by the Association of British Chambers of Commerce deals with the matter at length, and suggests that the grievance can be remedied to a great extent by giving legal effect to the recommendations of the Royal Commission on Income Tax in 1920, the chief of which were that the societies should be taxable upon that portion of the net revenue which was not returned to the members, and that the exemption from tax on their invested funds which they now enjoy should be abolished.

The memorandum proceeds to point out that even if such a course were adopted it would still leave co-operative societies in a better position than other trading concerns with regard to income tax, because the latter are taxed on the whole of their profits and the members are left to recover if they are entitled.

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## Post Mortem Income Tax Claims.

[CONTRIBUTED.]

THERE is some reason to believe that when death occurs, and a claim for refund of income tax is made by executors or administrators, it is framed on too modest a basis. There is very recent evidence that, if advice is asked for from the average inspector of taxes, or if his rejection of a bolder claim is acquiesced in, a considerable amount of money may be lost. Even in an individual case the amount at stake may not be negligible, and the total must be very considerable in the course of a year.

According to the experience of the present writer, which is extensive and applies to both England and Scotland, the practice is that during life each year's claim is allowed to be made up by taking the dividends, &c., which have come in during the tax year in question, without regard to the period during which those dividends accrued. Thus in a claim for the tax year ending April 5th, 1926, there would, on the one hand, be included the whole of a dividend which was payable and paid in May, 1925, though it was for the half-year which ended on

December 31st, 1924; and, on the other hand, there would be included no part of a dividend which became payable in May, 1926, though it was for the half-year which ended on December 31st, 1925. This is all right, and also quite simple, while life continues and the claims are sent in regularly year by year. Indeed, it would hardly be practicable to proceed on any other basis, and though it is possible that in different districts the practice may vary, the experience of the present writer is that no objection is made by the Department. But when death occurs it is rather different. Suppose death happens on April 6th, 1927, and let us assume that the income was £600 a year, all from dividends taxed at the source. Suppose also that the deceased was a widow and was entitled to an allowance for three children. The yearly tax allowances would, therefore, be: personal, £135 at 4s., £27; children, £90 at 4s., £18; reduced rate on £225 at 2s., £22 10s., in all, a tax refund of £67 10s.

It is reasonable to assume that the refund for 1926-27 had not been obtained or even claimed before the death. Therefore the first thing for the executors to do is to send in a claim for that year made up on the same cash basis which was followed during the deceased's life. Upon that claim they will obtain repayment of £67 10s. Experience suggests that it may be better tactics to make two bites of the cherry, and to insist on that claim being dealt with and paid before it is followed up with a claim for 1927-28, the peculiarities of which latter claim are the real point of this article.

To begin with, there is no manner of doubt that a claim for that year 1927-28 is competent, and that it is the right, and also the duty, of the executors to make it. The reason is that the deceased lived into that year. This will not be contested by the Department.

Next, though she lived into that year for one day only, her estate is entitled to a full year's tax allowances, and not merely a three hundred and sixty-fifth part of these allowances. The reason is that the income for that one day was her whole income for the tax year 1927-28. This, again, will not be contested by the Department—that is to say, if it is claimed, but there is reason to believe that it is not so widely known as it ought to be.

But then, of course, there can be no repayment beyond the amount of tax which the taxpayer has borne. Therefore if in 1927-28, on a true method of "computation," the deceased cannot be said to have borne tax to the amount of £67 10s., that amount cannot be paid back. That is obvious enough; but then it takes us back to the question: what was the deceased's income for the tax year 1927-28, for only one day of which she lived? This



is the crux of the matter, and this is where there will be trouble if a firm front is not presented to the Department.

The view which the ordinary inspector of taxes will probably—according to experience—put forward is this: As the deceased lived into 1927-28 for only one day, her income for that short period can be only a three hundred and sixty-fifth part of a full year's income, assuming her investments to have remained undisturbed. Thus her income could be only that fractional share of £600, which is £1 13s., and therefore it is not possible that there can be repayment of more than 6s. 7d. That is about what it comes to according to the inspector, but the way he puts it is this: Strictly you are to look at the dividends which came in after the death for any period prior to, or up to, the date of death, and of the total of those you are to take the proportion applicable to one day. If we assume that all the dividends were paid in May for the half year to December 31st previous, and in November for the half-year to June 30th previous, each half-year being equal, there would be received after the death, namely, in May, 1927, £300 for the half-year to December 31st, 1926 (wholly during the deceased's life) and in November, 1927, £300 for the half-year to June 30th, 1927 (partly during the deceased's life). This would give a full year's income, £600, received after death but wholly or partly applicable to life. Therefore the inspector maintains that the proper method is to divide £600 by 365, thus arriving at an income of £1 13s. for 1927-28, and a paltry refund of 6s. 7d. He has an even less favourable method which personally he prefers for saving labour. It is to take the dividends which do actually come in on that one day, which, in this case, would be nil; but it is well to note this in passing, for there might be an odd case where it would pay the claimant, unless some claimant in succession raised objection.

The answer to all this is as follows: All the income which comes in after death, so far as applicable to the period up to the death, is the deceased's income. Further, as to the tax year to which it is to be referred, that must follow the rule of allocation or appropriation which had been followed and established between the deceased and the Department for all the years of the deceased's life. It is too late now to upset it. Therefore, as to dividends paid for periods the whole of which were before the death (in this case, therefore, within the tax year 1926-27) the whole of them must go into the claim for 1927-28. That is just what would have been done without objection if the deceased had lived, and so it must now be. In like manner as to dividends paid for periods partly before, and partly after, the deceased's death (in this case,

therefore, partly within the tax year 1926-27) there must go into the claim for 1927-28 the proportion corresponding to the deceased's survivance, that is, in this case, from December 31st, 1926, to April 6th, 1927. Why? Because in law that was the deceased's income.

What may be described as a dramatic way of stating it is: look at the upper parts of dividend warrants which we, the executors, produce. Half of these represent income for the half-year to December 31st, 1926, £300. The other half represent income for the half-year to June 30th, 1927, £300. The whole of the first £300 was income of the deceased. Of the second £300 the part from December 31st, 1926, to April 6th, 1927 (£158), was income of the deceased. *Yet no tax refund has been obtained on any of these sums of income.* This must be put right by bringing these sums of £300 and £158, together £458, into the claim for 1927-28. The total of £458 exceeds the amount on which we claim refund, namely, personal allowance £185, children £90, and reduced rate £225, together £450. The £458 was all fully taxed income, per vouchers produced; therefore the £67 10s. claim should be allowed in full. On principle this seems clear, and—what is perhaps more important—according to both English and Scottish precedents it will be allowed if strenuously enough pressed.

## Custody of a Company's Books.

THERE can be no lien on the register of members, register of mortgages, or books or documents required to be kept by the directors under the constitution.

The books of account of a company are usually kept at the registered office of the company, and Articles invariably make provision to this effect. This custody at the registered office, *i.e.*, at a particular place, has the advantage of protecting them against a lien. Directors have no power to create any lien on the share register and minute book of a company which could interfere with their being used for the purposes of the company (*re Capital Fire Insurance Association* (1884), 24 Ch.D., 408). The solicitor of a company cannot acquire a lien for costs upon such books of the company as under the Articles or the provisions of the Companies Acts ought to be kept at the registered office of the company (*re Anglo-Maltese Hydraulic Dock Company* (1885), 54 L.J., Ch. 730). But in *re Hawkes* (1898, 2 Ch., 1) it was held that solicitors acting for executors who are parties to an administration action may, as officers of the Court, be ordered at

the instance of a creditor to produce for inspection documents in their possession on which they have a lien for costs, if such inspection is necessary for the purposes of the action, although the documents came into their possession from the executors' testator, and the lien was acquired before the commencement of the proceedings.

General words in a mortgage or in a debenture will not, apparently, affect the company's books. In *re Clyne Tin Plate Company* (1883, 47 L.T., 439) it was held that the books of a company cannot be said to be comprised in the general words of a mortgage of the company's effects, and a mortgagee in possession cannot, as against the liquidator of the company, retain the books on the ground that they are mortgaged.

In a case reported in *The Times*, April 21st, 1926 (*Schooners Association v. Soames & Walleth*), the question as to the right of the custody of a company's books was raised on a motion for the delivery to the plaintiff company by the defendants of the register, minute books and account books of the company. Some of the books were detained by Soames, a solicitor, on behalf of Walleth, the former manager of the plaintiff company, who claimed to exercise a lien thereon on account of certain moneys which were owing to him from the plaintiff company, Walleth himself having the remainder of the books in his own possession. By the Articles of Association of this company the books of account were to be kept at the registered office of the company, and as far as the register and minute books were concerned the company had been served with the usual notice to furnish the annual list of members and other particulars as required by sect. 26 of the Companies Act, 1908, and for this purpose access to the books was necessary. In this case the Judge held that although in the ordinary way an order for the delivery of the books would be made, yet in the special circumstances of the case, as there was a grave risk of the books being destroyed to prevent their production at the trial of a libel action which was then pending, he ordered:—

(1) That the books in the possession of Soames should not be delivered up, but should be retained by him on his giving an undertaking to allow the books to be inspected and copies and extracts taken by the plaintiffs, and to do all other acts that were necessary in order that the plaintiffs might be able to comply with the notice served on them by the Registrar of Joint Stock Companies.

(2) That the defendant Walleth should deliver up such of the books as were in his own possession, not to the plaintiffs, but to his solicitors, who were to give a similar undertaking to that of Soames.

The disposal of books and papers of a company on winding up is governed by sect. 222 of the Act of 1908, which provides:—

(1) When a company has been wound up and is about to be dissolved, the books and papers of the company and of the liquidators may be disposed of as follows:—

(a) In the case of a winding up by or subject to the supervision of the Court, in such way as the Court directs.

(b) In the case of a voluntary winding up, in such way as the company by extraordinary resolution directs.

(2) After five years from the dissolution of the company no responsibility shall rest on the company, or the liquidators, or any person to whom the custody of the books and papers has been committed, by reason of the same not being forthcoming to any person claiming to be interested therein.

By Rule 76 of the Winding up Rules, 1909, any contributory for the time being on the list of contributories, trustee, receiver, banker, or agent or officer of a company which is being wound up under Order of the Court shall, on notice from the liquidator, and within such time as he shall by notice in writing require, pay, deliver, convey, surrender or transfer to or into the hands of the liquidator any sum of money or balance, books, papers, estate or effects which happen to be in his hands for the time being and to which the company is *prima facie* entitled. Rule 175 provides:—

(1) Upon a liquidator resigning or being released or removed from his office, he shall deliver over to the Official Receiver, or, as the case may be, to the new liquidator, all books kept by him, and all other books, documents, papers, and accounts in his possession relating to the office of liquidator. The release of a liquidator shall not take effect unless and until he has delivered over to the Official Receiver, or, as the case may be, to the new liquidator, all the books, papers, documents, and accounts which he is by this Rule required to deliver on his release.

(2) The Board of Trade may, at any time during the progress of the liquidation, on the application of the liquidator or the Official Receiver, direct that such of the books, papers, and documents of the company or of the liquidator as are no longer required for the purpose of the liquidation, may be sold, destroyed, or otherwise disposed of.

Books of a company which are in the possession of a liquidator after dissolution, and as to which he has received no direction, are in his absolute control, and he can therefore not claim protection on an application for discovery on the ground that he holds them on behalf of some one else (*London & Yorkshire Bank v. Cooper* (1885), 15 Q.B.D., 473).

## Society of Incorporated Accountants and Auditors.

### COUNCIL MEETING.

A meeting of the Council was held in the Council Chamber, 50, Gresham Street, London, E.C., on Friday, January 21st, when there were present:—Mr. Thomas Keens, President, in the chair; Mr. Henry Morgan, Vice-President; Mr. W. Bateson (Blackpool); Mr. D. E. Campbell (Wolverhampton); Mr. W. Claridge, M.A., J.P. (Bradford); Mr. Arthur Collins (London); Mr. E. Cassleton Elliott (London); Mr. Richard Leyshon (Cardiff); Sir James Martin, J.P. (London); Mr. C. Hewetson Nelson, J.P. (Liverpool); Mr. James Paterson (Greenock); Mr. Arthur E. Piggott (Manchester); Mr. G. S. Pitt (London); Mr. J. Stewart Seggie (Edinburgh); Mr. Richard Smith (Newcastle-on-Tyne); Mr. Alan Standing (Liverpool); Mr. Percy Toothill (Sheffield); Mr. A. H. Walkey (Dublin); Mr. R. T. Warwick (West Hartlepool); Mr. F. Ogden Whiteley, O.B.E. (Bradford); Mr. E. W. C. Whittaker, J.P. (Southampton); Mr. W. McIntosh Whyte (London); Mr. A. E. Woodington (London); and Mr. A. A. Garrett, B.Sc., B.A., Secretary.

Apologies for non-attendance were received from Mr. F. Walmsley, J.P. (Manchester); Sir Charles Wilson, M.P., LL.D. (Leeds); Mr. Walter Holman (London); and Mr. W. Paynter (London).

### FINANCE AND GENERAL PURPOSES COMMITTEE.

It was resolved that for the future the Finance Committee be styled the "Finance and General Purposes Committee," with additional powers for General Purposes comprising such matters as do not come within the purview of any other Standing Committee. Mr. Alan Standing and Mr. Arthur Collins were added to the Committee.

### SOUTH AFRICAN (WESTERN) COMMITTEE.

The Council approved a form of constitution for the South African (Western) Branch, the Committee of which sits in Cape Town.

### EXAMINATION AND MEMBERSHIP COMMITTEE.

It was resolved that Mr. William Paynter be an additional Member of the Examination and Membership Committee.

### COMPANY LAW AMENDMENT.

A report was received as to a Bill to be introduced into Parliament during the forthcoming session for the amendment of the Companies (Consolidation) Act, following the recommendations of the Company Law Amendment Committee. The President reported that a joint deputation from the Institute and Society had waited upon the President of the Board of Trade, and had made representations to him in regard to matters of interest to the profession.

### ELECTRICITY ACT, 1926.

It was reported that prior to the passage of the Electricity Bill through Parliament, a deputation had waited upon Sir Harry Haward, one of the Electricity Commissioners, in regard to provisions relating to accounts and financial adjustments.

### AUTUMNAL CONFERENCE, 1927.

An invitation was received from the Manchester and District Society of Incorporated Accountants to hold an Autumnal Conference in Manchester. It was resolved that the invitation be accepted with the thanks of the Council.

### DISTRICT SOCIETIES.

It was reported that the President and Secretary had attended functions of the District Societies in Liverpool, Newcastle and Leeds. Also that the President had visited Notts., Leicester, Derby and Lincoln District Society, and that Mr. Arthur Collins and the Secretary had visited the Irish Branch in Dublin and the Belfast District Society. The thanks of the Council were accorded to the Irish Branch and District Societies for their hospitality.

### INSTITUTE OF BOOK-KEEPERS.

The Council received from the Institute of Book-Keepers a copy of the painting of Frater Lucas Pacioli (the father of book-keeping), the original of which is hung in the Art Gallery at Naples. It was resolved that the thanks of the Council be sent to the Institute.

A number of new members were elected and other important business was transacted.

## JUDGE SHEWELL COOPER ON ACCOUNTANTS' CHARGES.

In the Mayor's and City of London Court, before Judge Shewell Cooper, on January 18th, Messrs. Bourne & Stringer, 68, Aldersgate Street, London, E.C., Incorporated Accountants, sued Gladola Limited, 522, Oxford Street, London, W., milliners, for £16 16s. for professional services.

Evidence was given by Mr. G. E. Stringer, F.S.A.A., a partner in the plaintiff firm, to the effect that his firm at one time audited the books of the defendant company, but the arrangement was terminated. In January, 1925, in response to a telephone request from Miss Chapman, a director of the defendant company, he re-wrote the share register of the company, and did other work, including the returns in connection with income tax and in dealing with suggestions for raising fresh capital. In all there were eight interviews entailing eight hours work. His firm did not audit the books for that year. In the plaintiffs' opinion the amount which they sought to charge the defendants, and for which they were suing, was a reasonable charge for the work done.

On behalf of the defendants £5 5s. had been paid into Court as adequate remuneration for the plaintiffs' work.

Evidence was given by Miss Chapman, who admitted that the interview set out by the plaintiffs' witness had taken place, and also that they had done work in connection with income tax and raising fresh capital.

Asked by the Judge what she considered would be reasonable charges for the services rendered by the plaintiffs, witness replied that she could not really say.

Judge Shewell Cooper thereupon said that the action was to all intents and purposes undefended, and was a further illustration of what he found in his Court, namely, that people freely used the services of professional gentlemen and were then surprised to find that the cost was more than they anticipated. "There seems to be a feeling that professional people are expected to work for little or nothing," added his Lordship.

In giving judgment for the plaintiffs for the amount claimed, with costs, Judge Shewell Cooper said that in his view plaintiffs' charges were eminently reasonable.



## The Society of Incorporated Accountants in Ireland.

### ANNUAL GENERAL MEETING.

The 24th annual general meeting of the Irish Branch was held at the offices, 34, Dame Street, Dublin, on January 5th.

The PRESIDENT (Mr. Norman Booth, F.S.A.A., Belfast) occupied the chair, and amongst those present were Mr. R. Bell (Belfast), Mr. C. P. McCarthy, M.Com. (Cork), Mr. J. H. Barton (Dublin), Mr. John Maher (Dublin), and Mr. A. J. Walkey for Hon. Secretary.

### President's Address.

The PRESIDENT, in proposing the adoption of the report and statement of accounts, said: I have great pleasure in submitting to the members of the Irish Branch the annual report of its activities during the past year. This Society is now entering upon the 25th year of its formation as the Irish Branch of the Society, and during that long period the membership has been steadily increasing. The Branch has, I venture to assert, maintained the status and upheld the best traditions of the accountancy profession. In many matters of general interest to the profession, and especially with regard to the question of legislation for the profession, the Branch has collaborated with the Institute of Chartered Accountants in Ireland, with whom we have throughout remained on most friendly terms. It is a matter for congratulation that a good percentage of Incorporated Accountants in Ireland have now become members of this Branch, as, in my opinion, every Incorporated Accountant benefits by its work.

The total number of candidates who presented themselves at the half-yearly examinations held in November, 1925, and May, 1926, was 65, namely, Final 23, Intermediate 25, and Preliminary 17. Of these, 8 passed in the Final examination, 13 in the Intermediate, and 10 in the Preliminary; the total passes being only 48 per cent. of the total number of candidates. This figure indicates the very high standard which candidates are required to attain, and students, therefore, should take advantage of every possible means of acquiring the necessary practical and theoretical knowledge, and also keep themselves up to date as regards legislation which affects the work of the profession. A vigorous Students' Society has been formed in Dublin, and a syllabus of lectures arranged for 1926-27. The Society is run by the students themselves, with the guidance (when required) of some of the senior members of the profession, who have also undertaken to deliver lectures on accountancy and kindred subjects, whilst outside lecturers have kindly consented to address the students on special subjects. These lectures, and the discussions which follow, will undoubtedly be of the greatest value to our students.

It was recently my privilege to preside at the annual dinner of the Society in Dublin, when a large gathering included Mr. Arthur Collins, member of the Council; Mr. A. A. Garrett, the Secretary of the Society; the Hon. Secretary of the Institute of Chartered Accountants in Ireland, and representatives of the legal profession and of commerce and industry. The speeches were all of a very high order, and the function was most successful in every respect. The Belfast and District Society also held an equally successful dinner, and during the year has done splendid work in promoting lectures for the members and students of our profession.

Three members of the District Society—Mr. James Boyd, Mr. G. H. McCullough and Mr. J. D. Lewis—were during the year invited to give evidence before the Bankruptcy Law Amendment Committee of the Government of Northern Ireland. The Committee has throughout the year dealt with a great many questions of interest to our members, apart from the consideration of numerous applications for permission to sit at the Society's examinations, and the Committee of this Branch is extremely indebted to our Hon. Secretary (Mr. A. H. Walkey) for the time and attention he has given in dealing, both by correspondence and interviews, with a large amount of routine work.

The accounts, which are now before you for adoption, show a very satisfactory surplus. It is unnecessary for me to make any comment in regard to the various items, and I, therefore, now formally propose the adoption of the report and accounts.

Mr. C. P. McCARTHY seconded the motion, which was passed unanimously.

### ELECTION OF OFFICERS.

The election of officers and members of the Committee for the ensuing year was then proceeded with, and resulted in the following appointments:—President, Mr. A. H. Walkey, F.S.A.A. (Dublin); Vice-President, Mr. C. P. McCarthy, M.Com., F.S.A.A. (Cork); Hon. Auditor, Mr. T. Condon Flinn, F.S.A.A. (Dublin); Committee: The President, Vice-President, and Mr. J. A. Kinnear, Mr. R. J. Kidney and Mr. A. J. Walkey (Dublin), Mr. James Boyd, Mr. Norman Booth and Mr. Robert Bell (Belfast), and Mr. A. J. Magennis (Cork).

Mr. A. J. Walkey was appointed to act as Hon. Secretary during Mr. A. H. Walkey's term of office as President, and Mr. A. Cyril Storey was again appointed as Assistant Hon. Secretary.

A hearty vote of thanks to the outgoing President was moved by Mr. C. P. McCARTHY, seconded by Mr. J. H. Barton, and carried unanimously.

The PRESIDENT (Mr. Norman Booth) said that he specially desired to thank Mr. A. H. Walkey, on his own behalf and on behalf of the Committee, for the manner in which he had furthered the interests of the Society during the past year.

It was proposed by Mr. McCARTHY, seconded by Mr. BELL, and carried unanimously that the best thanks of the meeting be conveyed to Mr. A. C. Storey for the outstanding manner in which he had acted in the capacity of Assistant Hon. Secretary, particularly in relation to the activities of the Students' Society.

## Obituary.

### JOSEPH DARKER BUTTERELL.

We regret to announce the death on the 29th ult. of Mr. J. D. Butterell, F.S.A.A., of the firm of Messrs. Butterell & Ridgway, Incorporated Accountants, Bowalley Lane, Hull. Mr. Butterell was one of the oldest accountants practising in that city, and was admitted a Fellow of the Society on March 21st, 1893. It is stated in the *Eastern Morning News* that Sir Philip Cunliffe-Lister, the President of the Board of Trade, served for a time in Mr. Butterell's office. The practice will be continued by Mr. G. A. Ridgway, who had been associated with Mr. Butterell for no less than 39 years.

### JOHN ROBERT POWDITCH.

The death is announced of Mr. J. R. Powditch, of Bank Chambers, 329, High Holborn, London; which took place on the 23rd ult. Before commencing practice some few years ago, Mr. Powditch was with Messrs. Ward & Wilding, of Clement's Inn. He was admitted an Associate of the Society on October 20th, 1894, and a Fellow on July 17th, 1924.

## Loss of Profits Insurance.

A LECTURE delivered before the members of the West of England District Society of Incorporated Accountants by

MR. S. A. F. KEPPLÉ, A.C.I.I.

(Of The Phoenix Assurance Company, Bristol).

MR. KEPPLÉ said: When I received an invitation from your Hon. Secretary (Mr. F. A. Webber) to read a paper to the members of your Society on "Loss of Profits Insurance" I must confess that I was tempted to allow my fears as to my ability to deal with this subject to outweigh the possibility of engendering some interest among you in a form of insurance the importance of which I venture to suggest is too little known and appreciated by members of your profession and the commercial world in general. However, after a little consideration I decided to accept the honour thus extended to me, and I trust therefore that the following notes may prove of some service in that direction.

I must point out that a more apt title for the subject is "Insurance of Anticipated Profits lost in consequence of Fire at the Premises of the Insured," whereby the business is interrupted or interfered with.

You will readily foresee that there are many contingencies other than fire which can result in loss of profit to a trading concern, and it is highly essential, therefore, that the form of protection supplied under the insurance contract should be made clear. Further, it will be noted from the amplified title given above that such policies are only operative in the event of the premises or property therein belonging to the insured being damaged or destroyed by fire, and for which liability is admitted under a fire insurance contract. Indirect loss caused by a fire at other premises is excluded. For instance, the failure of gas or electricity through a fire at a gas works or electricity generating station causing a loss of and interference with the business of an insured would not be covered, unless the subject of a special contract not within the scope of this paper.

Before proceeding to outline the terms and conditions of the policy which is now issued by first class companies it may be as well to mention certain other schemes for this class of insurance which have been or are adopted by some companies.

### PERCENTAGE OF FIRE LOSS POLICY.

A sum insured is fixed by the insured as representing "profits," and the policy is a contract to pay such a percentage of that amount as the sum paid in respect of the fire loss by the insurers against material fire loss bears to the total sum insured under the fire policies. For example, sum insured under fire policies, £10,000; amount of fire loss, £6,000. The amount payable under this scheme would be six-tenths of the sum insured on "profits."

A similar form of contract, first issued many years ago, was called a "Profits," or "Excess," fire policy, and which undertook to pay the percentage which the sum insured under the "profits" policy bore to the total fire insurance over contents on the amount paid in settlement of the fire loss.

For example:—

Sum insured under "Excess" fire policy ..	£600
Total fire insurance over contents .. ..	£12,000
Percentage of sum insured to total of fire insurance on contents is .. ..	5 per cent.
Amount paid by underwriters in settlement of fire loss being .. ..	£4,000
The amount payable under "Excess" fire policy would therefore be .. ..	£200

From the foregoing examples you will gather that the sums payable bear no relation to the actual loss of profits sustained by reason of the fact that a large fire may in some cases cause little interruption of business, thus leaving the insured with a profit which his business would not have earned, whilst, on the other hand, a small fire damaging an engine house or important machinery in a process of manufacture may result in a total loss of profits which are not recoverable owing to the comparatively unimportant material fire damage. I understand that these contracts are much less frequently issued nowadays, owing to the bad moral hazard which they engender and that proof of loss is usually required, unless the insurers are satisfied that the insured has been trading at a profit. They are unsound in principle, for the reason that a policy of insurance, whilst affording protection against loss, must not be an incentive to gain.

Another scheme is to pay a fixed amount per day or week during which the business is entirely stopped as a result of fire, and a proportionate amount of such a figure during each day or week that the business is partially stopped. Such policies would probably be issued in respect of theatres, music halls, cinemas, shows, &c. This form of contract is known in the United States as "Use and Occupancy insurance."

If turnover year by year was not subject to fluctuation, such a scheme, subject to certain provisos, might be acceptable, but since such an event would be most rare you will appreciate that this scheme, as in the case of the others I have mentioned, is open to objection on the grounds that the principle of indemnity cannot be maintained. Further, the assumption that loss of profits ceases when incapacity ceases is not justified by experience. For instance, contracts placed elsewhere by insured's customers owing to his inability to accept same, by reason of the interruption of his business through fire, may not expire for some considerable period after the damage to insured's premises, plant, &c., has been reinstated and normal working has been resumed. A more scientific scheme has been adopted for the past fifteen to twenty years which affords an insured adequate cover and closely conforms to the principle of indemnity. At this stage it will perhaps be advisable for me to explain the essential difference between an ordinary fire policy and the "Loss of Profits" policy as issued by the first class companies.

A fire policy is designed to indemnify the insured in respect of his loss on buildings, stock in trade, machinery, &c., and which is termed his "material" loss. A "Loss of Profits" policy is designed to cover his potential loss—or, in other words, the depletion of earnings resulting from the destruction of those material assets I have already mentioned. It also reimburses an insured in respect of those fixed charges which still have to be met, although the business by reason of the fire is temporarily at a standstill or only able to produce a percentage of its normal turnover. In short, the one affords "protection of capital," the other "protection of earnings."

In the modern form of policy the loss of profits resulting from interruption of a business by fire are insured under three headings, viz:—

(a) Loss of net profit.

(b) Payment of specified standing charges which will have to be met, although the business by reason of the fire may be either at a standstill or its earning power seriously curtailed. These usually comprise: salaries to permanent staff and wages to skilled employees, interest on mortgages, debenture capital and bank overdrafts, rent, rates, directors' and auditors' fees, insurance premiums, advertising under contract, horsekeep, depreciation on buildings,

plant, machinery, leases, patents and the like. Depreciation on stock-in-trade cannot be covered, and depreciation on buildings, plant and machinery is limited to that portion which is undamaged by the fire.

- (c) Increase in cost of working necessary to enable the business to be carried on in temporary premises, or in any other manner which will serve to reduce the loss of turnover and contribute to the maintenance of its connections during the period of interruption following a fire.

In regard to (a) and (b) (i.e., loss of net profit and payment of specified standing charges) it is only necessary for an insured to furnish the total of these items, which constitutes the sum insured and is termed "profits." The standing charges to be insured must be specified—a sum not exceeding 5 per cent. of the total specified standing charges being allowed when necessary to be added to the sum insured, in order to cover any unspecified charges. Further, it is a condition of the policy that only those charges which continue to be paid or payable after the fire, and which are met by the earnings of the business, can be recovered. If the gross trading profit is insufficient to meet the total standing charges of a business then the difference becomes a charge against capital, and as such cannot be insured under an ordinary profits policy.

With regard to (c) (i.e., increase in cost of working) it is not necessary to fix an amount to cover increase in cost of working, since any expenditure under this heading will tend to reduce the amount which would otherwise be payable on shortage in turnover. A clause in the policy, however, limits the sum recoverable under this section to such increased cost as shall be necessarily incurred in order to continue the business and maintain turnover up to but not exceeding the normal during the period of indemnity, because the insurance company must not be the means of providing the insured with a much improved business and turnover as the result of a fire. Such expenditure also must not exceed the amount which, added to the percentage recoverable on loss of turnover, would equal the loss of profits sustained if the business were entirely stopped during the period of indemnity.

Further, if the sum insured is less than the actual total amount of net profit and all standing charges in the preceding financial year or other standard of comparison fixed, then the sum recovered under heading of increased cost is proportionately reduced. But for this proviso an insured would be able to recover the whole sum expended in respect of increase in cost of working, although the sum insured represented but a fraction of the total annual net profit and standing charges of the business.

In order to measure the loss of profits sustained after a fire, a standard of comparison must be fixed. In deciding on the standard to be employed it is necessary to consider the nature of the particular business—whether it is established or recently commenced, whether the goods manufactured or dealt in constitute a variety of articles or one stable product, or whether the revenue of the business is derived from sources other than manufacturing or dealing in goods.

The majority of policies are issued on a turnover basis, and the form of wording usually adopted in an ordinary "turnover" policy is as follows:—

In the event of loss or damage by fire to the premises or property therein of the insured, the insurers undertake to indemnify the insured in respect of

- (a) Loss of profits sustained during the period of indemnity in consequence of such interruption or interference, but not exceeding the ascertained percentage of the

sum by which the turnover for such period shall in consequence of such interruption or interference fall short of the turnover for the corresponding period in the twelve months immediately preceding the fire; provided that if the amount of the specified standing charges shall be reduced or cease to be paid or payable, the amount of loss shall be reduced accordingly.

- (b) Increase in cost of working necessarily incurred by the insured in consequence of such interruption or interference in order to maintain during the period of indemnity a turnover not exceeding that of the corresponding period in the twelve months immediately preceding the fire; provided that if the sum insured by this policy shall be less than the sum of the net profit and all standing charges (insured and otherwise) of the business for the last financial year preceding the fire, the amount payable shall be proportionately reduced.

Provided always that the total liability of the company shall not exceed in respect of any one fire the sum which would be payable if the turnover were entirely stopped by the fire during the period of indemnity, nor in the aggregate in respect of all fires during the annual currency of the policy the sum insured. Definitions of the following expressions used in the wording are stated, viz:—

1. *Profits*.—The net profit of the business added to the specified standing charges.

2. *Specified Standing Charges*.—Given in detail.

3. *Turnover*.—Moneys paid or payable to the insured for goods sold and delivered or charges for work done and materials provided.

4. *Ascertained Percentage*.—The percentage of the sum insured to the turnover for the twelve months immediately preceding the fire, but not exceeding the percentage of the profits in the last financial year preceding the fire to the turnover for that period.

5. *Period of Indemnity*.—The period after any fire during which the business is interrupted or interfered with, but not exceeding — consecutive calendar months from the date of such fire.

6. *Fire*.—Fire, lightning and explosion of gas used for light, heat or power, and boiler and economiser explosion, occurring on the premises.

Other standards employed are:—

*Output*, the basis of comparison being the amount per unit of output, for instance—

In breweries the unit would be a 36 gal. barrel of beer;
In corn mills     "     "     a sack of corn;
In collieries     "     "     a ton of coal;
In cotton mills   "     "     spindles.

Productive wages is generally found to be the best standard for shipbuilders and large engineering works where there is no regular turnover, due to the large contracts which may be undertaken at no fixed periods, and reduction in wages affords a more reliable indication of the extent to which such a business has been interrupted by a fire. You will gather, therefore, that "profits" policies can be adapted to suit the requirements of all industrial concerns.

In regard to the terms used in the policy, such as turnover or output and ascertained percentage, the definitions are adjusted where necessary to meet cases presenting special features, such as commencing businesses, fluctuating businesses, businesses having different sections or departments or having a number of branches. The period of indemnity is fixed by the proposer and should approximate to the length of time which he estimates it will take for the business to return to normal after a serious fire.



The sum insured under a policy with a period of indemnity of twelve months or less must represent the annual amount of the net profit and standing charges of the business. When the period of indemnity exceeds twelve months, the sum insured must represent the "profits" for a period equal to the period of indemnity.

The rate charged is based on the average fire rate for annual fire policies on the contents of the premises to which the "profits" insurance is to apply, and varies in accordance with the period of indemnity selected.

For example:—

With six months indemnity, 110 per cent. of fire rate.					
„ nine „ „	130	„	„	„	„
„ twelve „ „	150	„	„	„	„

The question is often asked as to why, in a policy giving an indemnity of six months, the sum insured must be the equivalent of a full year's net profit and standing charges. The reason for this is that whilst the company will pay only during a period of six months following the date of any fire, it must be borne in mind that the liability of the company is for a period of six months following all fires occurring during the annual currency of the policy. For instance, a fire may occur on the last day of the term of the policy, and although the insurance may not be renewed the company would be liable for six months from the date of the fire. It is not practicable to insure six months' profits, as it is impossible to know in which six months of the year the business may be interrupted by fire. The amount of profits earned in one six months may vary considerably from the amount of profits earned in the other six months, as in the case of a seasonal business.

Further, the method of loss assessment requires the sum insured to represent the annual figure, for if this is not the case the percentage recoverable must automatically fall short of the actual percentage of the profits earned.

The extent of the period of indemnity is taken into account in the premium charged. For example, the premiums for an insurance of £1,000, carrying an average fire rate of 5s. per cent., would be as follows:—

Three months indemnity .. ..	£1 17 6
Six „ „ .. ..	2 15 0
Nine „ „ .. ..	3 5 0
Twelve „ „ .. ..	3 15 0

Although the usual form of contract covers net profit and standing charges, policies are issued to insure net profit or standing charges, or increased cost of working only, but a comparatively higher rate is charged when increased cost alone is insured. Having outlined the scope of the indemnity provided under a "profits" policy, I will now refer to some of the policy conditions.

1.—In adjusting a loss, due allowance must be made in the turnover, output, or other standard employed for all extraordinary or other circumstances increasing or decreasing such standard and not consequent upon the fire. The accountant in compiling the statement of claim has therefore to ascertain whether the particular months with which comparison is to be made constitute normal periods of trading. For instance, the past six months during which the coal strike has seriously affected many industrial concerns would not be deemed a fair period for comparison. Further, the strike being, as we all hope, settled, the ensuing six months will, in all probability, see some revival in industry, and consequently this period would not be considered a normal one, and due allowance must accordingly be made. Without taking such a factor into account an insured might in the first instance suffer a serious loss, and in the second reap an unmerited gain as a result of fire.

2.—Before any liability can be admitted under the policy it must be shown that the insured's property damaged or destroyed by fire in the premises is insured against loss by fire and that the fire insurance companies covering such property have admitted liability or paid or made good the loss or damage to such property. This condition also details the following perils which are excluded from the scope of the insurance: subterranean fire, earthquake, invasion, foreign enemy, riot, civil commotion, military or usurped power, spontaneous fermentation, natural heating or explosion (except as otherwise provided for in the definition of the term "fire" expressed in the policy) destruction of or damage to dynamos, motors or any other part of an electrical installation directly due to over-running, abnormal currents or self heating, but I may mention that, subject to payment of special rates, policies can be extended to cover loss of profits following loss or damage caused by riot, civil commotion, military or usurped power (other than that caused by foreign enemy) strikers, locked-out workers or persons taking part in labour disturbances, or malicious persons acting on behalf of or in connection with any political organisation (excluding Ireland).

3.—If the business be liquidated or permanently discontinued after a fire, the company shall not be liable to make any payment under the policy.

4.—In the event of a fire the insured must give notice in writing to the company of his intention to make a claim, and must do and concur in doing everything reasonably possible to minimise the interruption or interference with the business. He must also, within 30 days from the date of expiration of the period of indemnity, deliver to the company a written statement of claim with all particulars and details reasonably practicable, and allow inspection of all business books and other records as may reasonably be required in order to verify the claim, and, if requested, a statutory declaration in verification of the claim. This period is, however, usually extended if the insured so requires.

The importance of this condition is obvious in that it enforces diligence on the part of an insured who might otherwise be very dilatory in adopting all possible means to re-establish his normal business and reduce the amount of the loss incurred.

The other conditions, which include provision for reference to arbitration in the event of a dispute, are those common to all fire insurance contracts issued by the companies. I will endeavour to illustrate the arranging of an insurance on Loss of Profits and Standing Charges, and also the method of computing the loss sustained in the event of a fire to the premises or property of the insured therein. If you will refer to the specimen trading and profit and loss account, of which I hope all present have a copy, you will note that the net profit for the year 1925 is .. .. £1,690

In regard to productive wages, we find that the proportion in respect of skilled employees, whose services it will be necessary to retain after a fire, is .. .. 14,150

Other standing charges which may continue to be paid or payable after a fire are:—

Salaries to permanent staff .. ..	650
Rent .. ..	250
Rates .. ..	83
Bank charges .. ..	350
Advertising under contract .. ..	70
Insurance premiums .. ..	261
Auditors' fee .. ..	50
Telephone rent .. ..	22
Interest on mortgages .. ..	144
Depreciation on plant, machinery and tools ..	280

£18,000

NOTE:—Income tax can be included as a standing charge if desired, but subject to a proviso that the insured undertakes to pay over to the collector of taxes the amount recovered under this head.

Depreciation, although not strictly speaking a standing charge, is often included subject to the stipulation already mentioned that indemnity will only be given in respect of property not destroyed or damaged by fire.

Taking these figures as our basis, the sum to be insured on profits—i.e., net profit and specified standing charges—is £18,000. The period of indemnity is fixed at six months, this in the opinion of the insured being the approximate time that would elapse before the business after a fire would reach normal trading conditions again.

We will now assume that a fire occurred in the premises on the night of April 30th, 1926, as a result of which the premises, stock, plant, &c., were seriously damaged, and the business consequently interrupted.

The assessor adjusting the loss is furnished with the following figures certified by the insured's auditor, that:—

1. The turnover for the twelve months immediately preceding the fire was £45,000.
2. The percentage that the sum insured bears to £45,000 is 40 per cent.
3. The percentage of the actual net profit and specified standing charges in the past financial year preceding the fire to the turnover for that period is not less than 40 per cent.
4. The turnover for the period May to October, 1925, inclusive was .. .. £22,000
5. The turnover for the corresponding period in 1926 after the fire is .. .. 7,000
- The total shortage in turnover therefore being .. .. £15,000
6. The increased cost necessarily incurred in order to carry on the business during the period of indemnity is .. .. £1,100

NOTE:—The items comprising this amount would have to be approved by the company, and it is always advisable for the representative of the insured and the company respectively to collaborate and agree the items in principle at the outset.

7. The proportion of certain Standing Charges insured under the policy which did not continue to be paid after the fire was .. £140

The amount recoverable on account of reduction in turnover is 40 per cent. of £15,000 £6,000

The increased cost of working has been agreed at .. .. 1,100

Less—

Proportion of Standing Charges not paid after the fire .. .. 140

£6,960

It will be noted that this sum is less than the amount which would have been payable if the business had been entirely stopped after the fire during the period of indemnity, viz, 40 per cent. of £22,000, i.e., £8,800.

Policies embodying other standards, such as output and productive wages, would operate on similar lines in the event of a claim arising. For example, assume the trading account before us to be that of a corn miller, and that his output for the

twelve months immediately preceding the fire was 90,000 sacks. The amount per sack which the sum insured (£18,000) bears to 90,000 is therefore 4s. The amount produced by dividing the actual total of net profit and standing charges in the last financial year preceding the fire by the output of sacks during that period is not less than 4s. per sack. The output for the period May to October, 1925, is 40,000 sacks. The output for the corresponding period after the fire is 10,000 sacks. The total shortage in output being 30,000 sacks, the claim would be adjusted as follows:—

30,000 sacks at 4s. per sack .. .. £6,000

Add—

Increase in cost of working .. .. 1,100

7,100

Less—

Proportion of Standing Charges not paid after the fire .. .. 140

£6,960

In a policy with the standard of productive wages, the basis would be the percentage which the sum insured bears to the amount of productive wages paid in the twelve months immediately preceding the fire, provided such percentage does not exceed the actual percentage realised in the last financial year preceding the fire.

In regard to the item of £140 for certain standing charges not paid after the fire, I must explain that the whole amount of such saving should not be deducted except where there is a total shortage in turnover or other standard employed. In the case of partial reduction, the standing charges unexpended after the fire would be apportioned as between the amount of turnover earned by the business and the shortage upon which the company is called upon to pay. For example, it is ascertained that a saving in rent and interest on bank overdraft was made during the period of interruption after a fire amounting to £200. The amount of turnover earned during the period was £6,000, against £20,000 during the corresponding period of the previous year. The apportionment would therefore be as follows:—

Insured six-twentieths, or 30 per cent. of £200 .. £60

Company fourteen-twentieths, or 70 per cent.

of £200 .. .. £140

Another and possibly more correct method of dealing with such an item would be to deduct the amount of the standing charges unexpended from the sum insured, thus reducing the percentage basis payable on reduction of turnover. For example:—

Sum insured, £18,000; turnover for twelve months immediately preceding the fire, £45,000; percentage, 40 per cent.

If the £200 for standing charges unexpended is deducted, the sum insured becomes £17,800 and the percentage to turnover 39.5 per cent. By this means the principle of assessing the loss on the percentage basis is maintained.

I would draw your particular attention to the benefit which "Profits" insurance confers on the retailer and small trader solely dependent for his living on the earnings of his business. Provided a proper set of books is kept and an accountant employed to audit same, the companies will, subject to completed proposal form being satisfactory, accept such insurances readily. To the manufacturer, merchant or company trading on a big scale, "Profits" insurance is, I venture to state, a prime necessity, for it would appear illogical to insure buildings and their contents against loss by fire and yet leave the profits derived therefrom unprotected.

## SPEEDWELL SAW MILL AND JOINERY WORKS, TIMBERCOMBE.

TRADING AND PROFIT AND LOSS ACCOUNT for Year ended December 31st, 1925.

1924.				1925.			
Dec. 31st.				Dec. 31st.			
To Stock-in-Trade	..	..	£ 1,500 0 0	By Sales	..	..	£ 41,309 6 4
1925.				„ Stock-in-Trade	..	..	2,473 13 8
Dec. 31st.	„ Purchases	..	22,104 7 3				
	„ Productive Wages	..	15,306 12 9				
			£38,911 0 0				
	„ Gross Trading Profit c/d	..	4,872 0 0				
			£43,783 0 0				£43,783 0 0
1925.				1925.			
Dec. 31st.				Dec. 31st.			
To Salaries	..	..	650 0 0	By Gross Trading Profit brought			£ 4,872 0 0
„ Rent	..	..	250 0 0	down	..	..	123 6 10
„ Rates	..	..	83 6 8	„ Discount and Allowances	..	..	41 9 2
„ Income Tax	..	..	116 5 0	„ Interest (less Income Tax)	..	..	56 4 0
„ Bank Charges	..	..	350 3 4	„ Rents	..	..	
„ Carriage and Freights	..	..	380 3 4				
„ Advertising	..	..	134 2 4				
„ Insurance Premiums	..	..	261 4 3				
„ Lighting, Heating, Power and							
Water	..	..	290 6 2				
„ Legal and Professional Charges			127 3 0				
„ Postage, Telegrams and Tele-							
phone	..	..	34 2 9				
„ Printing and Stationery	..	..	17 4 6				
„ Travelling Expenses	..	..	37 4 9				
„ Maintenance of Plant,							
Machinery and Tools	..	..	247 4 1				
„ Interest on Mortgages, less							
Income Tax	..	..	144 0 0				
„ Depreciation on Plant,							
Machinery and Tools	..	..	280 9 10				
			£3,403 0 0				
„ Net Profit	..	..	1,690 0 0				
			£5,093 0 0				£5,093 0 0

## Society of Incorporated Accountants and Auditors.

## EXAMINATION RESULTS.

SOUTH AFRICAN (EASTERN AND WESTERN) COMMITTEES.

NOVEMBER, 1926.

## Final.

Alphabetical Order.

BOLTMAN, WILLIAM, Clerk to F. W. Anton Eveleigh, Library Buildings, Market Square, Port Elizabeth.

CAMPELL, WILLIAM JOHN ARCHIBALD, Clerk to George Mackeurton, Son &amp; Crosoer, Old Well Court, 376, Smith Street, Durban.

CUNNINGHAM, JOHN DRYDEN, Clerk to George Mackeurton, Son &amp; Crosoer, Old Well Court, 376, Smith Street, Durban.

DALLAS, LINWOOD FORBES, B.A., Clerk to A. S. Hooper (Deloitte, Plender, Griffiths, Annan &amp; Co.), Norwich Union Buildings, 107, St. George's Street, Cape Town.

HIGGERTY, JOHN WATERSTON, Clerk to J. F. Orr (J. Fleming Orr, Pratt &amp; Mockford), 14/15, Third Floor, Trust Buildings, Johannesburg.

(9 Candidates failed to satisfy the Examiners.)

## Intermediate.

Alphabetical Order.

BECKFORD, ERNEST WALTER, Clerk to H. R. S. Eason, Board of Executors Buildings, 67, Maitland Street, Bloemfontein.

HOLMES, TOM ALEXANDER, Clerk to A. S. Leith (Leith, Freake &amp; Cade), 69, Maitland Street, Bloemfontein.

PECK, HAROLD DOUGLAS, Clerk to Alex. Thal (Alex. Thal, White &amp; Co.), 92, Adderley Street, Cape Town.

ROBOTTOM, AUSTIN LLOYD, Clerk to E. R. Syfret (E. R. Syfret &amp; Co.), 24, Wale Street, Cape Town.

TRIGGER, TERENCE BUNKE, Clerk to P. E. T. Whiteley (Whiteley Bros.), 31/39, Meischke's Buildings, Harrison Street, Johannesburg.

(8 Candidates failed to satisfy the Examiners.)

## Preliminary.

Alphabetical Order.

DE FINE, FRANCIS JOACHIM OHLSON, Clerk to Maldwyn Edmund, 3/7, Anmercosa House, Corner of Fox and Holland Streets, Johannesburg.

MITCHELL, BRUCE, 37, Young Avenue, Mountain View, Johannesburg.

(1 Candidate failed to satisfy the Examiners.)



## Society of Incorporated Accountants and Auditors.

### MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our December issue:—

#### ASSOCIATES TO FELLOWS.

BLAIR, GEORGE HELSBY (Bedell & Blair), Brazennose Chambers, 25, Brazennose Street, Manchester, Practising Accountant.

BOYDELL, JESSE, Borough Treasurer, Town Hall, Wolverhampton.

CADE, ROBERT, B.A. (Leith, Freake & Cade), 69, Maitland Street, Bloemfontein, South Africa, Practising Accountant.

DREYER, MELT VAN DER SPY, P.O. Box 5446, Johannesburg, South Africa, Practising Accountant.

FERNEYHOUGH, MARTIN PENNINGTON, 6, Commerce Street, Longton, Stoke-on-Trent, Practising Accountant.

HAYES, PERCY AUGUSTUS (Alban & Lamb), 84, Queen Street, Cardiff, Practising Accountant.

HEWITT, ARTHUR (Price, Waterhouse, Peat & Co.), 10/14, Standard Bank Chambers, Johannesburg, South Africa, Practising Accountant.

HEWITT, CHARLES (Chas. Hewitt & Coutts), Sauers Building, Loveday Street, Johannesburg, South Africa, Practising Accountant.

HIGGS, ALBERT THOMAS, 72, London Street, Reading, Practising Accountant.

LEITH, ALFRED SEARLE (Leith, Freake & Cade), 69, Maitland Street, Bloemfontein, South Africa, Practising Accountant.

MOUSTARDIER, MONTAGUE, 44, Greenwood Road, Dalston, London, E. 8, Practising Accountant.

NICHOLSON, JOHN, 156, High Street, Lincoln, Practising Accountant.

PARISH, LEONARD (Parish & Clarke), 24, Vance's Chambers, Cloth Hall Street, Huddersfield, Practising Accountant.

RENNIE, JAMES STUART MACREADY (Rennie, Lowick & Co.), 6, Battery Road, Singapore (S.S.), Practising Accountant.

SENDELL, GEORGE ERNEST, F.C.A. (Kemp, Charteris, Nichols, Sendell & Co.), 36, Walbrook, London, E.C. 4, Practising Accountant.

#### ASSOCIATES.

AIYAR, ARJUN K. SUBRAMANI, B.Com., Clerk to K. S. Aiyar & Co., 65, Apollo Street, Fort, Bombay, India.

BONELLA, ALAN JAMES, P.O. Box 541, Durban, South Africa, Practising Accountant.

BRAMALL, BERTRAM, Clerk to Davies & Crane, Hoghton Chambers, Hoghton Street, Southport.

BUCKLAND, CECIL FELIX, Clerk to Deloitte, Plender, Griffiths, Annan & Co., 201, Consolidated Buildings, Johannesburg, South Africa.

BUDGE, KEITH EDWARD CHARLES, Clerk to White & Pawley, 6, Sussex Terrace, Princess Square, Plymouth.

CAMPBELL, ERIC DOUGLAS, Box 243, Durban, South Africa, Practising Accountant.

CARTER, JOHN FRANCIS, Clerk to W. Claridge & Co., 53, Well Street, Bradford.

CHARTRES, JACK WILLIAM HENRY, Clerk to C. E. C. Nicholls, Avenue House, Eastbourne.

FOSTER, LIONEL WALLS, Clerk to William Grimes & Co., 2, Narrow Wine Street, Bristol.

GREENWOOD, ARTHUR, Clerk to Edward Clough, Masonic Buildings, Cooke Street, Keighley.

HANSOTIA, PESTONJI COWASJI, B.Com., Clerk to S. S. Engineer & Co., 45, Apollo Street, Fort, Bombay, India.

HOPE, CHARLES RICHARD HUMPHRIES, Clerk to Cole, Bond & Co., 90, Cannon Street, London, E.C. 4.

HURD, JAMES ARTHUR, 68/71, Winchester House, Johannesburg, South Africa, Practising Accountant.

JONES, ERNEST, Clerk to Price, Waterhouse & Co., National Bank Building, James Street, Liverpool.

MCLOUGHLIN, GERALD ARTHUR, P.O. Box 2636, Johannesburg, South Africa, Practising Accountant.

PADIVALA, KAIKOBAD NUSSEEVANJI, B.Com., Clerk to A. S. Madon & Co., Watson Hotel Buildings, Esplanade Road, Fort, Bombay, India.

PAYMASTER, DHANJISHAW RATANJI, B.A., LL.B., Clerk to S. B. Billimoria & Co., 113, Esplanade Road, Fort, Bombay, India.

PECKER, CLAUDE BERTRAM, Clerk to D. O. Dyke, The Old Mansion, St. Mary's Street, Shrewsbury.

RANBY, WILLIAM STEPHENSON KING, Clerk to E. R. Syfret & Co., 119, St. George's Street, Cape Town, South Africa.

RYAN, ARTHUR BELMONT, Clerk to Douglas Low & Co., Consolidated Gold Fields Buildings, Johannesburg, South Africa.

SANDERSON, JAMES BENJAMIN, Clerk to Wilfred Tullett, 14, Tenters Street, Bishop Auckland.

TUCKER, FREDERICK GRANVILLE WALLACE (Box 1152), Johannesburg, South Africa, Practising Accountant.

WOOTTON, JOHN REGINALD, P.O. Box 1089, Pretoria, South Africa, Practising Accountant.

## District Societies of Incorporated Accountants.

### NOTTS, LEICESTER, DERBY AND LINCOLN.

#### Syllabus of Lectures.

With reference to the announcement in our January issue, the following lectures, which it was stated were to be delivered at Nottingham, are being given at Leicester:—

Jan. 27th. "Hosiery Costing," by Mr. J. A. Wild, F.C.W.A.  
Mar. 24th. "Holding Companies," by Mr. R. Ashworth, F.S.A.A.

April 7th. "Executorship Law," by Mr. W. H. Grainger, A.S.A.A.

### SOUTH WALES AND MONMOUTHSHIRE.

A meeting of this Society was held recently in the Council Chamber of the Town Hall, Newport, when Mr. W. H. Grainger, A.S.A.A., of London, delivered a lecture on "Executorship Law and Accounts."

The chair was taken by the President of the District Society (Mr. R. Wilson Bartlett, F.S.A.A.), supported by Mr. F. J. Alban, F.S.A.A. (Cardiff), Mr. G. E. S. Heybyrne, F.S.A.A. (Newport), Mr. W. J. Pallot, F.S.A.A. (Cardiff), Mr. F. J. Notley, A.S.A.A. (Newport), Mr. C. T. Stephens, A.S.A.A. (Newport), Mr. P. A. Hayes, A.S.A.A. (Cardiff), Mr. A. D. Thomas, A.S.A.A. (Cardiff), Mr. E. Mills, F.S.A.A. (Newport), Mr. H. W. Baddeley, A.S.A.A. (Newport), Mr. R. G. L. Thomas, F.S.A.A. (Newport), Mr. A. B. Watts, F.S.A.A. (Cardiff), Mr. T. Ll. Price, A.S.A.A. (Newport), Mr. A. H. Friend, A.S.A.A. (Newport), Mr. P. H. Walker, F.S.S.A. (Cardiff), and a large number of student members.

Mr. Grainger dealt with the whole position of the executor from the drawing of the will right up to the final distribution of the corpus of the estate and the income therefrom. He discussed the various apportionments to be made between capital and income, and cited numerous cases applicable to executorship accounts, and also the various provisions of the new Act.

An interesting discussion subsequently took place, in which Mr. W. J. Pallot, F.S.A.A., Mr. R. Wilson Bartlett, F.S.A.A., Mr. F. J. Notley, A.S.A.A. took part. The proceedings closed with a hearty vote of thanks to the Lecturer for his interesting and useful paper.

## YORKSHIRE.

Mr. Victor Walton A.C.A., Leeds, gave an interesting address before this Society on "Some Thoughts on Accounts and Financial Statements" at Leeds on January 11th. The paper was illustrated by twelve examples, dealing with holding companies, financial companies, output costs, underwriting share issues, moving averages, &c.

Mr. Geo. Astle, A.S.A.A., presided over the meeting, and opened discussion on points dealt with by the Lecturer.

The ninth meeting of the session was held at Leeds, on January 25th, when Mr. A. Lester Boddington, F.S.S., dealt with the criticism of balance-sheets, and particularly the effect of secret reserves, holding companies' interests, classification of creditors and reserve funds.

The meeting was presided over by Mr. O. Coope, A.S.A.A., of Leeds, and terminated with a vote of thanks to the Lecturer.

## TRUSTEE SAVINGS BANKS.

## MODEL AUDIT RULES.

AUDIT RULES made by the INSPECTION COMMITTEE OF TRUSTEE SAVINGS BANKS for the purpose of maintaining an EFFICIENT AUDIT of the BOOKS and ACCOUNTS of SAVINGS BANKS, pursuant to SECT. 3 (5) of the SAVINGS BANKS ACT of 1891.

1.—*Appointment.*—The trustees and managers shall appoint an auditor or auditors to examine the books of the bank, and to report in writing to the board of trustees and managers or committee of management the result of such audit, not less than once in every half-year.

2.—*Qualifications.*—A person acting as an auditor shall be a Chartered or Incorporated Accountant, in practice, or, in the event of the services of an auditor, so qualified, not being available, a person approved by the Inspection Committee of Trustee Savings Banks, and shall in no case be selected by the trustees and managers out of their own body. A firm of accountants, the partners of which are all qualified as above, shall be eligible for appointment.

3.—No person or firm shall be appointed, as aforesaid, who holds an office in any other banking concern, except as auditor or auditors, and the acceptance of any such office, except as auditor or auditors, by any previously appointed auditor or auditors of this bank shall *ipso facto* determine his or their employment as auditor or auditors of this bank.

4.—*Auditor's Certificate of Liabilities and Assets, &c.*—The auditor or auditors shall examine an extracted list of the depositors' balances, as well Government Stock, if any, as cash, made up every year to November 20th, and shall certify as to the correct amount of the liabilities and assets of the bank.

5.—*Book of Depositors' Balances.*—A book containing such extracted list of every depositor's balance, omitting the name, but giving the distinctive number in consecutive order and separate amount of each, and showing the aggregate number and amount of the whole, shall be checked and certified by the auditor or auditors, and shall be kept open at all times during the hours of public business for the inspection of every depositor, as respects his own account, so that he may examine his own pass-book therewith, and compare the general total of the list with the annual general statement.

6.—*Audit of Pass-Books without Notice.*—The auditor or auditors shall attend at the bank's offices, and shall compare with the ledgers the pass-books of the depositors, taken as

presented by them, so that the number of comparisons made in the year be not less than 10 per cent. of the total number of pass-books extant at the time, and shall certify the number or percentage of ledger accounts so vouched and verified, when reporting under Clause 1 above.

7.—*Auditor's Certificate to Annual General Statement.*—The annual general statement, in such form and with such particulars as the National Debt Commissioners, under sect. 8 of the Savings Banks Act, 1891, may from time to time direct, shall be examined by the auditor or auditors, and, if found correct, shall be certified accordingly, as provided for on the form of general statement, as shall be also the copy sent to the Inspection Committee of Trustee Savings Banks, and the duplicate copy exhibited in the bank's offices. If not found correct, the auditor or auditors shall report accordingly to the trustees and managers.

8.—*Vacation of Office.*—Any appointment of auditor or auditors shall be for a term not exceeding one year, provided that a retiring auditor shall be eligible for re-appointment.

9.—*Further provisions as to Auditors of Savings Banks in Ireland, including Audit of Pass-books with Notice.*—Immediately after the appointment of any auditor or auditors under the preceding provisions of this rule, the trustees shall cause the signature, name and address of every such auditor to be transmitted to the National Debt Commissioners. They shall also cause a certificate from the said auditor or auditors, as to the result of his or their examination of such of the depositors' pass-books as may have been produced for examination, to be transmitted with the annual general statement to the aforesaid Commissioners, and with that object the auditor or auditors shall attend at the bank on\* ——— and\* ——— to inspect, examine and verify with the books of the bank the pass-books of depositors, who are hereby required to produce the same at the bank for that purpose.

10.—The above provisions shall apply as well to the special investment department of the bank (if any) as to the general department, so far as the same are applicable to a special investment department.

NOTE A.—An appointment, or re-appointment, of auditors should be made by resolution in the following or some such form:—

"That Mr. ———, Mr. ——— and Mr. ——— of ——— (Chartered) (Incorporated) Accountants, practising under the firm name or style of Messrs. ——— be and hereby are appointed (re-appointed) auditors of the accounts of the ——— Savings Bank for the year ending November 20th ——— at a fee of ——— guineas."

NOTE B.—A professional accountant in practice need not, in the opinion of the Inspection Committee, give security under sect. 8 of the Savings Banks Act of 1863 and sect. 9 of the Savings Banks Act of 1891, in his capacity as auditor.

NOTE C.—The authority for making the foregoing rules is contained in the following sub-sections of sect. 3 of the Savings Banks Act, 1891, viz:—

(4) The trustees of every trustee savings bank shall, on the requisition of the committee,† supply the committee with a copy of the pass-book in use in the bank, of the annual general statement of the accounts of the bank, and of the rules of the bank, and of any amendments thereof.

\* A certain number of days, not less than two in every year ending on November 20th, should be specified here. Clause 9 is applicable to savings banks in Ireland only.

† i.e., the Inspection Committee of Trustee Savings Banks.

(5) If in the opinion of the committee the rules of any such bank are insufficient for the purpose of maintaining an efficient audit, the bank shall with all convenient speed make such additional rules as may, in the opinion of the committee, be required for the purpose.

(6) If the bank do not, within a time specified by the committee from the date of being required to make any such rules, comply with the requirement, the committee may make such rules, and shall submit the rules so made to the Registrar of Friendly Societies, to be certified by him; and, when so certified, they shall be binding on the trustees.

## Correspondence.

### "RESIDENCE" AND INCOME TAX.

To the Editors *Incorporated Accountants' Journal*.

Sirs,—I think that both you, in your Note in the December, 1926, issue, and Mr. G. O. Parsons, in his letter published in the January, 1927, issue, have rather over-stated the significance of the recent decision of Mr. Justice Rowlatt in the *Todd v. Egyptian Delta Land* case.

In your comments you state "If this judgment is allowed to stand it practically means that all idea of escaping assessment by control from abroad must be abandoned," and Mr. Parsons says that he is in complete agreement with this statement.

Surely it is not so bad as that. It seems to me that all the *Delta* case did was to extend the rule laid down by the House of Lords in *Swedish Central Railway v. Thompson* to British registered companies which had some organisation in this country solely for the purpose of carrying out the requirements of the Companies Acts. You will remember that the Swedish company performed other activities in this country in addition to keeping its register of members and filing its annual return, but it did not carry on its trade or business here.

I think this latter point was agreed between the parties, but whether it was or not it had no bearing on the case. The Revenue wanted the company to be declared "resident in this country" for the purposes of Cases IV and V, Schedule D—and they succeeded. No attempt was made to upset the *Egyptian Hotels* or *De Beers* cases, and they still stand so far as the profits arising from the carrying on a trade or business are concerned.

The main point brought out in the *Swedish Railway* case was that a company, like an individual, may have more than one residence. Besides a "trading" residence, i.e., the place where its seat of control and management is situate, a British registered company may have other residences, and as at least one of the latter must necessarily be in the United Kingdom, it is assessable to income tax under Cases IV and V (1) on any income arising from Dominion and foreign securities, stocks, shares and rents. However, so long as its "trading" residence, i.e., its seat of control and management, is outside the United Kingdom no assessment can be made under Case I on its trading profits, but, of course, assessments will be raised under Case V (2) if any of the profits are remitted to this country.

Yours faithfully,

London.

WM. C. BROAD (A.S.A.A.).

## Government Accounting.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. A. E. WATSON, C.B.E.

The chair was occupied by Sir MALCOLM RAMSAY, K.C.B., F.S.A.A., Comptroller and Auditor-General.

Mr. WATSON said: I will first endeavour to sketch, necessarily only in broad outline, the history of English Government finance, which leads rather naturally to accountancy, and I do this for the reason that the history of the subject is essential for a correct appreciation of the accountancy problem.

*Revenue*.—In its earliest form the King's income consisted of supplies contributed or services rendered by his subjects for the general services of government, and for the defence of the realm.

After the Norman Conquest lands and estates were given to the principal of the King's supporters on condition that they placed in the field in time of war so many troops fully equipped for service under the King. Crown estates were for the most part let to tenants of lower degree, or to corporations, in return for supplies of cattle, corn, cloth, silk and other imported or manufactured articles.

### CONVERSION TO MONEY PAYMENTS.

Before a century had passed these requirements proved irksome, and the feudal dues were converted into payments of money to the Crown for the maintenance of national services. Converted military service was *Scutage*; converted civil supplies was *Tallage*.

In addition income arose from:—

*Fines or Fees*.—For grant or confirmation of privileges; for despatch in dispensing justice; for the King's authority in collection of debts; licences to marry; licences to trade, &c.

*Revenues from Crown Lands*, in so far as these lands remained in the occupation of his personal servants;

*Escheats*, i.e., forfeited or seized estates which devolved to the Crown;

*Rents of Vacant Bishoprics and Monasteries*.—This was ordinary casual income, though Henry II kept them vacant for some considerable time and meanwhile enjoyed the income (the longest period recorded is eighteen years);

*Fees for Wardship*;

*Rents of counties, towns and boroughs*;

*Fines for Misdemeanour*;

*Customs Duties* were levied, though at a rather later date.

### SIMILARITY TO PRESENT TAXES.

It will be noticed that these sources of income were similar to the majority of taxes existing to-day.

### AIDS.

But in addition to all of these "aids" were levied. These were general assessments laid on lands or towns. There were three regular aids—for Knighting the King's eldest son, for marrying the King's daughter, and for ransoming the King if taken prisoner in war.

Extraordinary aids were levied whenever by reason of the ordinary needs of government, war or extravagance, the King's income proved insufficient. These aids are of very great historical interest because the whole of our Parliamentary control springs from the constant inability of the Kings of England to "live of their own."



## ORIGIN OF PARLIAMENT.

Parliament itself had its origin in the difficulties experienced by the Crown in the collection of revenue. The King summoned Parliament, not from any conviction that representative Government was in itself a desirable thing, but because it was easier and safer to notify the great nobles, the shires and towns gathered together in one place, of the King's desires as to revenue, than to send his servants through the Kingdom to collect it.

## PROCEDURE OF PARLIAMENT.

Gradually Parliament, so assembled, came to demand rights in return for subsidies, and to devise forms and procedure in order to delay or even to negative the granting of supplies. This was in fact safer to the individual than directly to challenge the Royal demands.

## REDRESS OF WRONGS.

The whole constitution indeed may be said to rest on the rights acquired in this way to demand redress of wrongs as a preliminary to granting supply.

Throughout the Middle Ages there were continual attempts by the Crown to secure additional sources of income or increased revenue from existing sources, and only the Tudor sovereigns successfully countered the growing control of revenues by Parliament. Their financial astuteness, in fact, enabled them to "live of their own"—Henry VII by levying fines and forfeitures from his enemies in the recent civil war, or from too powerful supporters; Henry VIII by suppressing the monasteries and converting their revenues to his own use; Elizabeth by selling Crown lands.

The Stuarts without the financial ability of the Tudors, and with less understanding of English history, openly flouted Parliament, but the consequent civil war resulted in the firm establishment of Parliamentary control of revenue. From that time the right of Parliament to impose taxes and to control the collection of revenue has been unquestioned.

## CONTROL OF EXPENDITURE.

Now as to Parliamentary control of expenditure. The first evidence of Parliamentary control of expenditure was in the reign of Edward III, *i.e.*, the middle of the fourteenth century. Prior to that date no serious question had been raised as to expenditure since the King was expected to carry out National services to the best of his ability, but Parliament, in voting money for war with France (Appropriation—Edward III), did so "on condition that it be assigned and kept solely for the use of our Lord and King, and in no manner for the payment of former debts . . ." and at the same time appointed a Commission of Lords and Commons to examine and audit the receipts and payments of the King's Agents. The Commission does not appear to have got far with its labours, and it is indeed questionable whether the members of the Commission knew how to start their job.

The first accounts submitted to Parliament seem to have been those of Richard II in 1379, who presented them under protest "that this shall not in future be considered a precedent"; but the reality of the Parliamentary victory is shown by the fact that the King's Treasurer was impeached for misappropriation in 1386. A little later Henry IV, when asked for accounts, stated that "his Ministers did not know how to make them . . . and that Kings are not accountants." But Parliament withheld grants, and the King produced some accounts the following year.

## FOUNDATION OF PARLIAMENTARY CONTROL OF EXPENDITURE.

This was the foundation of Parliamentary control of expenditure of extraordinary aids, and it was soon extended

to attempts to control the expenditure of ordinary Crown income. The later Plantagenets were much harried by Parliamentary parsimony, but the Tudors, as we have seen, "lived of their own" and escaped criticism as a consequence. The struggle continued in Stuart times side by side with the struggle for control of revenues so much that we find Parliament appointing its own Commissioners to receive certain revenues and disburse funds in accordance with the wishes of Parliament.

## ESTIMATES.

From the time of the restoration of Charles II estimates were prepared for the King. They were not presented to Parliament, but formed the basis of the King's demands for revenue.

## ACCOUNTS.

No accounts were regularly submitted to Parliament, though Parliament from time to time set up independent Committees to inquire into expenditure and accounts.

## 1688.

The revolution of 1688 marks clearly the completion of Parliamentary control of revenue and expenditure. For the first time clear distinction was drawn between the revenues and expenditure of the Sovereign and the revenues and expenditure of the State. Parliament assumed responsibility for the latter, and that responsibility has never since been surrendered.

## NATIONAL DEBT.

In 1692, the National Debt was started by borrowing for the French war, on the security of an Act of Parliament—the first of the kind. In 1698 a definite assignment of revenue was made to the King for his personal expenses. That was the commencement of the Civil List, though it covered, at that date, more than is covered by the Civil List to-day.

## EXAMINATION OF ESTIMATES.

The examination of estimates became a regular feature of Parliamentary finance, and preceded the authorisation of taxation.

## APPROPRIATION.

Appropriation became definite. Thus an Act of the first year of William and Mary provided for raising £400,000 for "the speedy payment of seamen in his Majesty's Navy Royal, and to the paying for and supplying of necessary stores provisions and victuals for his Majesty's Navy Royal." It provided also for penalties on anyone who should divert or misapply the money.

## ANNUAL SESSIONS.

The revolution introduced annual sessions of Parliament and also annual estimates and appropriations, of which one of the main objects was to limit the standing royal army. Parliament, in fact, allowed the King to command the army, but by limiting grants for one year secured an annual session. It insisted on the recommendation of the Crown in the presentation of estimates.

## EXAMINATION OF ACCOUNTS.

It began to appoint Commissioners to examine annually accounts of expenditure.

## PERIOD OF SLACKNESS.

Parliament having in this manner secured control of revenues and expenditure, failed to realise that the Cabinet required a control equally strong, and for some 70 or 80 years no progress in control falls to be recorded.

Irregularities and speculation became rife, and it was not until the elder Pitt, as Paymaster-General, startled his

contemporaries by refusing "the usual percentages" on army pay, &c., that the great change of the eighteenth century was made. The younger Pitt set up a new board of audit and appointed Commissioners of Accounts in 1785.

Up to this date the practice of granting taxes for specific expenditure had obtained, and this, with the growing complexity of Government, led to considerable confusion. Thus upwards of seventy services were charged on Customs Revenues. The Militia was paid for out of land taxes, and certain hereditary annuities were charged on the profits of the Post Office.

#### CONSOLIDATED FUND ACT.

In 1787 the Consolidated Fund Act was passed providing that all revenue should be carried to a Consolidated Fund, and that out of that fund all the expenses of the Government should be paid. Thus the revenue collected through the Post Office, the Inland Revenue and the Customs is all carried to the Consolidated Fund, and the Votes of Supply services are charged to the fund. These main transactions are shown in the Finance Accounts of the United Kingdom, published regularly since 1802 as a result of the Report of a Select Committee of Finance appointed in 1797. This Committee, by the way, presented no less than 36 reports, showing in detail the working of all Government Departments and making sweeping recommendations for the abolition of sinecures.

Progress during the last century has been in the direction of more detailed estimating and accounting by departments, a thorough examination of accounts by independent auditors, and inquiry into accounts annually by a Committee of the House of Commons.

#### THE EXCHEQUER.

Now as to the Executive. Control of the financial organisation undoubtedly existed in some form from the earliest times, but the Court of Exchequer was introduced into England probably at the time of the Conquest. Its principal officers were the Justicier, the Chancellor (the predecessor of the present Lord Chancellor), the Treasurer and the Barons of the Exchequer, and it exercised the supreme functions in law and finance. This remained the position for roughly 100 years, but thereafter the power of the Justicier declined and he seems to have disappeared altogether in the troubles between Henry III and his barons.

The Court of Exchequer thereafter came to be governed by the Treasurer and the Barons, and a splitting off of legal functions became perceptible. The financial part of the Court of Exchequer came to be called the Treasury or "the receipt," and was in fact the place where the King's revenue was paid in and the rolls and records kept.

#### CHANCELLOR OF THE EXCHEQUER.

The Chancellor of the Exchequer was appointed towards the end of the thirteenth century as a check on the Treasurer. He kept a counter revenue roll.

#### AUDIT.

Audit by officers of the Exchequer started about the beginning of the fourteenth century.

#### SHERIFFS.

Sheriffs were appointed by and collected revenue under Exchequer directions, and the Exchequer paid out to the King's order either direct or through the Sheriffs. Sheriffs' accounts were rendered to the Exchequer and examined and allowed there, and as other collections of revenue, notably Customs and Excise, began to be collected, other collectors were appointed, and their accounts were similarly dealt with.

These collectors of Customs and Excise were of course the predecessors of the present Commissioners of Customs and Inland Revenue. With minor interludes the Exchequer remained in control of revenue collection. The Chancellor of the Exchequer remains the head of the Departmental Treasury, and it is through that Department that he exercises his executive functions; but he has been divested almost entirely of judicial functions.

#### LORD TREASURER IN COMMISSION.

The Treasurer was styled sometimes Treasurer; at a later date Lord Treasurer or Lord High Treasurer. The office was in commission for several periods between 1612 and 1714, and since 1714 has always been in commission.

#### COMPTROLLER AND AUDITOR-GENERAL.

Certain duties of the old Court of Exchequer have been diverted from the Treasury—notably the certification of the regularity of issues from the Exchequer (as distinct from the authorisation of issue), which has been vested in the Comptroller, and the greater part of the audit functions of the Exchequer now transferred to the Auditor-General and his department—the Exchequer and Audit Department. The offices of Comptroller and Auditor-General are combined in one officer, whose salary is charged not on a vote but on the Consolidated Fund, and who is an officer of Parliament.

Parliamentary control is exercised through the medium of estimates presented annually, and in agreeing to estimates—i.e., in voting supply—Parliament does so to meet expenditure coming in course of payment during the financial year under specified chapters called "votes." That is, it appropriates grants to definite purposes.

#### SEPARATION OF STATE INCOME AND EXPENDITURE.

I have dealt at some length with this history of Government finance in order to make clear, if possible, the very long history behind our system. Parliament has now become used to carrying all receipts into one account or fund, and to making grants from that one fund for the different purposes of Government. Speaking generally, State income and State expenditure have no such close relation as exists between the income and expenditure of a business concern. Grants are, and always have been, purely on a cash basis, and considerable changes in Parliamentary form and procedure would be required before any other system could be generally adopted. Parliamentary system has to a great extent dictated the organisation of departments, and we have as a consequence three departments which are styled Revenue Departments, and a large number of spending departments. The real accounts of the country, which show the whole of the receipts and payments, are the Finance Accounts of the United Kingdom; the individual accounts of Departments are with few exceptions concerned with a section, small as compared with the whole, of either receipts or payments, but rarely both, and for that reason there is something artificial in any attempt to furnish for the individual. Departments, income and expenditure accounts, real income or real expenditure, one or the other, is generally non-existent. The exceptions can almost be counted on the fingers of one hand—the Post Office, the Public Trustee, the County Courts Department, and one or two others.

#### APPROPRIATION ACCOUNTS.

The principal accounts of spending departments are called Appropriation Accounts, and are simply records of cash receipts and payments. The receipts are as a rule small in comparison with payments, and are usually in the nature of

refunds, proceeds of sale of old stores, &c. The accounts are rendered in a form approved or dictated by the Treasury, acting under powers conferred or confirmed by the Exchequer and Audit Departments Act of 1866 and the Public Accounts and Charges Act of 1891. The former provides, among other things:—

An Appropriation Account of Supply Grants shall exhibit on the charge side thereof the sum or sums appropriated by Parliament for the service of the financial year to which the account relates, and on the discharge side thereof the sums which have actually come in course of payment within the same period . . . .

The same Act requires that accounts be submitted to the Comptroller and Auditor-General for audit, and they are presented to Parliament with his report on them. They are then discussed by a Committee of the House of Commons—the Committee of Public Accounts—which examines witnesses from Departments.

#### REVENUE COLLECTION.

The Act also provided for revenue collections to be paid to the Exchequer, and for returns of revenue collection to be submitted to the Comptroller and Auditor-General.

#### PUBLIC ACCOUNTS COMMITTEES.

The reports of successive Committees of Public Accounts contain a mass of precedent which to a large extent governs procedure in Government accounting, but Parliament holds the Treasury primarily responsible for the proper control of finance, for regularity of expenditure, &c., for accounting in Departments. In each Department there is an Accounting Officer appointed by the Prime Minister on the nomination of the Treasury; this officer is usually, but not invariably, the permanent head of the Department and he has to answer before the Committee of Public Accounts for the financial administration of the Department, including accounts.

#### ACCOUNTS.

As regards the system of accounts, we may probably assume that up to 1866 the system of Government accountancy was not dissimilar to that in use commercially, but as you are aware, there have been since that date very great developments in commercial accountancy. As a result, business accounts are now almost universally on an income and expenditure basis; and cost accounts, sometimes in very great detail, have come to be kept for processes and units of manufacture. The main Government accounts, the Appropriation Accounts, are still accounts of cash receipts and payments, though to some extent the developments in commercial accountancy have been applied to Government accounts in this country.

#### COST ACCOUNTS.

For many years before the recent war, cost accounts were maintained at the principal manufacturing establishments of the Government, notably in the Royal Ordnance Factories at Woolwich, Waltham and Enfield, the Army clothing factory, army bakeries and laundries, and to a certain extent in military hospitals and prisons. They were also kept in the form of expense accounts in Naval dockyards, and for Post Office engineering services. In all of these cases the costs were compared with prices for similar products obtainable by contract, and as far as possible the Government establishments were allotted work which they could perform most advantageously. During the war cost accounts were maintained in the numerous Government owned factories. The Government during the war had the help of a large body of professional accountants who have left a profound impression on the accountancy methods of Departments, and it is now

generally recognised that cost accounts must be maintained in the case of all manufacturing services in order to secure economical working and control.

There has been a complete overhaul of the costing system of the Royal Ordnance Factories, and changes are in contemplation with a view to remodelling the somewhat antiquated dockyard expense accounts.

#### "TRADING" SERVICES.

In addition to cost accounts for manufacturing services, accounts in commercial form were maintained in respect of the many trading services which the Government undertook during the war—the purchase and sale of wool, leather, hides, timber, wheat, sugar, and many others—and mainly as a result of consideration of these war activities the Treasury has been empowered by an Act of 1921, amending the Exchequer and Audit Departments Act of 1866, to require that trading accounts shall be maintained in respect of such services as it may select and in such form as the Treasury may prescribe. In cases where the Treasury requires such accounts to be kept the Act requires their submission to the Comptroller and Auditor-General for audit, and presentation to Parliament. Volumes of these accounts have been published for the last few years.

#### STORES ACCOUNTS.

The last type of Government accounts are stores accounts, maintained by Departments having custody of stores. There are ordinary records of receipt and issue of stores, necessarily showing value in establishments where cost accounts are maintained.

It must be understood that cost accounts, trading accounts and stores accounts are regarded by Parliament as subsidiary to the Appropriation Accounts, but the Act of 1921 provided specifically for them to be submitted to the Comptroller and Auditor-General and reported on to Parliament, and their importance is now recognised.

#### WAR OFFICE ACCOUNTS, 1920-1925.

As regards the main accounts, the Appropriation Accounts, there has been little development during the last 60 or 70 years. The Select Committee on National Expenditure, 1918, greatly influenced by Sir Charles Harris, the Accounting Officer of the War Office, and eminent accountants at that time serving the Government, recommended that a change should be made in order that accounts of all Departments should show income and expenditure and the cost of objects, rather than subjects of expenditure, and, though no steps were taken to give general effect to that recommendation, it was put into operation as regards the army estimates and accounts, and the Corps of Military Accountants was organised to keep those accounts. The attempt was made to cost fully the individual units of the Army, both as to combatant and non-combatant establishments.

As regards combatant units the cost account proved to be of little value as a means of control. The Army would not abandon its right to definite rates of pay, definite allowances of food, clothing, fuel, and allowances of all descriptions, and with 90 per cent. of the expenditure of units definitely governed by rates of pay or regulated scales of quantities of various kinds of supplies, little scope remained for the effective use of cost accounts. Moreover, the future careers of commanding officers could not be dependent solely on economy in the management of their units, but in fact depended on the somewhat nebulous quantity called military efficiency, which was in fact the only effective production of the unit, and it was not susceptible of appraisal in cash.



As regards non-combatant establishments, that is works' services, mechanical transport repair depots, bakeries, laundries, and hospitals, and so on, cost accounts proved to be of very great value.

All of these accounts were definitely and for the first time in the history of Government accounting tied up with the main income and expenditure accounts of the Department. This attempt to reform army accounting continued for five years, and at no time did the Army authorities feel sufficient confidence in the operation of the 'new system' of accounts to abandon the older cash form nor to pursue the system to its complete logical end—that is, a complete delegation to commanding officers in the management of their units. And, after an experiment of five years—which incidentally cost £2,000,000 in staffing—decision was reached to revert to the cash form of accounts. For those who wished to study the discussion regarding this decision, I would refer to the report of the Committee on Public Accounts, 1925, and the evidence printed with it. But notwithstanding the reversion to cash accounts, the Army continues to keep cost accounts of what I have called non-combatant establishments, and this is agreed on all sides to be a real step forward, even though these cost accounts cannot be made to key in with the cash accounts except at considerable expenditure of time and patience.

As regards the general failure of the income and expenditure form of Army accounts, it is perhaps unfortunate that the attempt to introduce a new system of accounting should have been made at a time when the best brains in the Army administration were wholly occupied with the problems arising out of demobilisation, and must have continued for some years to be so occupied. It is even possible that the reformers could have rendered no worse service to their cause than to secure the introduction of a new system of accounting in the War Office in 1919. There could, I think, have been found better fields of experiment where services were in operation more comparable to commerce, notably Post Office services, Office of Works services, and the Stationery Office.

#### POST OFFICE TRADING ACCOUNTS.

As regards the Post Office, income and expenditure accounts are presented annually to Parliament. They are, it is true, regarded as subsidiary to the Appropriation Accounts, which are accounts of cash receipts and payments, but they are nevertheless reliable and set out clearly the result of Post Office operations. The Office of Works and the Stationery Office have no income and expenditure accounts, though the latter Department is progressing towards a system which may in a short time result in their production. But either of those Departments would have formed, I think, a better field for the introduction of income and expenditure accounts than the War Office.

Apart from the fighting services and the quasi-commercial services I have mentioned, there remains a large number of Government Departments whose functions are entirely or almost entirely administrative, and I do not think it matters greatly whether the accounts of such Departments are simple cash statements or income and expenditure accounts.

#### OFFICE MACHINERY.

I have left little time to say anything of the remaining points in Lord Olivier's sweeping denunciation of Government accounting. His first point was the antipathy to the use of office machinery in Government Departments. I would like to remark that, particularly since the war, the Government has been in the forefront of development of the use of office machines. There are now in the Government service a

number of Powers and Hollerith installations, numerous calculating and adding machines, and recently in the Savings Bank department an installation of Sundstrand machines was made which involves the whole of the book-keeping of the department being done by machine. I think, in fact, it is recognised by a number of commercial concerns in this country that the large scale experiments which the Government is making may even prove of the utmost value to them. The banks, for example, have been watching with considerable interest the work in the Savings Bank, and the installation of machines there has resulted in a saving of something like £80,000 a year in staff.

#### WAR FAILURE OF ACCOUNTING.

Lord Olivier mentioned the war failures in accounting, particularly those in the Ministry of Munitions. As it happens I know a great deal more of the failures in the Ministry of Munitions than he could possibly have done, since I was serving there for the whole period of the existence of the Ministry. The Minister of Munitions carried on commercial operations on a scale probably unprecedented in any country. Their net expenditure during the war was in the neighbourhood of £3,000,000,000, and the turnover many times this amount. Only a very small number of civil servants were engaged in the Ministry, and the failures in accounting were almost entirely due to the methods of a number of business men who, in dealing with the affairs of the Ministry, were totally unable to realise the magnitude of the organisation. For example, what accountant can cope with a business man who, hearing that firms of munition contractors are short of material for making cartridge bags, rifles his own store to the extent of taking out in a taxi 100 or so bales of valuable silk, delivers it personally to half-a-dozen firms, and keeps no record whatever of the total quantities nor the individual quantities; and again, what can happen when a high officer of a Department, having received an imprest for the purchase of copper, secures from a merchant warrants which are equivalent to possession, and, again without record, hands those warrants over to any contractor making cartridge cases for the Ministry who happens to be short of material. Numerous instances of that sort occurred, and it was only when the accounting departments called for detailed accounts of expenditure from imprests given that they got into touch with the thankless task of tracing unrecorded transactions.

#### ADVANCES.

Lord Olivier mentioned the lack of record of recoverable advances, but I do not think on this question he was really well informed. There are, in the books of Government Departments, records of items standing in suspense, and balanced statements are required from them under the terms of the Exchequer and Audit Departments Act, in which their expenditure as shown in the accounts must be reconciled, and the outstanding advances brought into account.

#### VALUATION OF STOCKS.

He mentioned also the failure to maintain adequate records of cash valuation of stocks. Here, I think, there is perhaps a real failure, but it is by no means so widespread as he indicated. With the exception of the fighting services, issues of stores are, in the main, valued. As regards the Navy, valuation of ordinary stores takes place. In the Army and the Air Force a certain degree of valuation exists, but their main difficulty is in regard to the valuation of armament stores, that is, warlike material, where the stocks contain not only new articles but a large proportion of goods which, though generally serviceable, have been in use for varying periods. The valuation of such as these is an immense

problem, and has no counterpart in any commercial undertaking that I know. It has, however, engaged the attention of the fighting service administrations for a good many years, and is even now under the consideration of a Government Committee. There is, nevertheless, a general movement in favour of the valuation of stock, but it is doubtful whether to the fighting services, which depend on quantity scales, the value of stock valuation is worth its cost as regards armaments. General stores are a different matter.

### Discussion.

The CHAIRMAN: I am sure everyone present will agree with me that we have had a very interesting paper from Mr. Watson, who has ranged over a very wide field, covering as it does, I think, some nine centuries of English history. I am sure he will be happy to deal with any points which members of the audience may wish to put to him by way of questions.

Mr. H. E. DAVIS, Incorporated Accountant: I think we ought to be very grateful that we have had the assistance of so eminent a civil servant to help us to understand the enormous accounting work that the Government has to undertake. If some of us think that things could be altered we are rather liable to forget the magnitude of operations and the past. I think, however, as a professional audience, we may venture to suggest to the Treasury that there is another side of the question, and that there are many very important points on which the present system badly fails. Our Chairman will remember his Parliamentary report made upon the building of huts in Mesopotamia; the estimate was £15,000, the accounts showed a cost of £275,000. The difference was accounted for by specially enlisting all labour required as untrained men, which were charged to another vote so that the labour did not appear as part of the cost: and it was only the new commercial type of account which disclosed the position. Thus we may suggest that the system of watertight compartments is deficient on this essential point at least. The Lecturer said that hospital accounts in the Army were considered very good. In spite of this they were cut out. What was the reason for this? Then, I think, as a professional body, we will agree that a sound basis of accounts would be income and expenditure. I think the system of block grants and quantity values is unsatisfactory, since the amount "allowed" is always charged irrespective of "requirements," thus providing a secret reserve. I remember I was once very nearly court-martialled because I put down in the accounts the coal used instead of allowance. I can still remember a certain fiery Irish colonel's views. (Laughter.) If you tell a man he can have £4,000 this year, and that if he does not spend it you will cut out what he does not spend from his next year's allowance, what do you think he does? If the accounts do not equal the estimates, the accounts require adjustment. We all know the word "wangle" and where we learnt it! Again, the remnant of cost accounts left are absolutely useless since there is no "tie up" and therefore no reasonable accuracy. I am sure of my ground since I prepared some of the first accounts myself. The fact remains, therefore, that the accounts as they stand at present are quite useless. The Post Office accounts would no doubt have been better to start on, but the Post Office do not get as much money to spend as the Army. I do not think the new form of accounts was ever given a real run for the money spent.

Mr. J. CHALK: Is there any system of presenting accounts to any Member of Parliament or to the Chancellor of the Exchequer?

Mr. A. G. IRONS: There are one or two points I would like to raise. Mr. Watson has been very interesting, especially after listening to Lord Olivier's previous address. I have not had an opportunity of looking through that address, but I believe most of the points have been dealt with. There are one or two problems that have arisen in my own mind. I cannot quite understand the relationship that exists between the Treasury and the Exchequer and Audit Department. What I think happens is, the Treasury deals with the outgoing of the money in the first instance, and then it is checked back on the expenditure side, and on the receipts

side, too, by the Exchequer and Audit Department. What is the connection between the two? Then there are one or two more problems with regard to accounts in general. One of the chief things seems to be the objection to income and expenditure accounts in connection with the whole system as against cash expenditure and cash receipt accounts. There is no doubt, in the first instance, to anyone with practical experience of accountancy, that in all cases where money is voted in a block, something will be found to spend it upon before the end of the time. That is only human nature. But it is a problem as to whether it would be worth while to bring in some system of income and expenditure account to get over this difficulty. The problems of the valuation of stock in Government accounts does not seem to worry me so very much, so long as the system of check on the quantities is carefully preserved. The thing is to be sure that the stock itself is there. There is another problem with regard to cost accounts, and that is whether there is any sort of rent charged in respect of the buildings that are used for Government Departments or factories. Mr. Watson said that the prices of things produced in Government factories have been compared with the prices charged by outside contractors.

Mr. S. E. STRAKER: The Lecturer very kindly told us that the taking of stock and the bringing of it into account is regarded as rather a difficulty. Personally I know nothing at all about Government accounts—I wish to make that perfectly clear—but one would have thought that, with regard to the Army, it could be dealt with in the same way as a commercial man deals with machinery. The stores, stationery office and that sort of thing would present no difficulty at all. But there is another side of the income and expenditure account of which he has not told us, and I should be glad if he would do so; that is, what practical difficulty he sees in including creditors at the end of the year? One can easily see how a couple of million voted might easily be doubled if creditors were left out, and one wonders whether it is possible to push the additional expenditure of one year, which does not appear in that year's accounts because it has not been paid, on to another year.

Mr. J. SCOTT-MOORE, Incorporated Accountant: I was very glad to hear our Lecturer this evening make a reply to Lord Olivier's somewhat slashing attack on Government accounts. I am inclined to agree with Mr. Watson that a very large proportion of the mistakes which the Ministry of Munitions accountants made were not made by regular Government accountants, but by so-called "commercial accountants," not qualified accountants, who were temporarily employed in the Ministry of Munitions. I do think it was very unfair to blame the small percentage of Civil servants and Government officials, who were not in executive positions, and who naturally could not cover the detailed ground to any large extent. With regard to the question of stocks; during the war, for about one year, I was responsible for stocktaking at Woolwich Arsenal, and there it would have been quite impossible to ascertain the value—under war conditions at any rate, and I think it would be the same under peace conditions—of the stock in hand, because it was so huge. There is, however, a safeguard in the fact that continuous stocktaking goes on. I believe in peace time it takes three years to take stock at Woolwich Arsenal. During the war some attempt was made to do it; in practice only a small percentage was done, although it covered millions of pounds worth of stock. To ascertain the actual stock at any date for the purpose of accounting would be quite an impossibility.

Mr. HENRY MORGAN, Incorporated Accountant: It has been very interesting to listen to Mr. Watson's account of the gradual evolution of Government accounting from the feudal system up to what it is at the present time. My knowledge of the subject is not sufficiently wide to justify me in taking the risk of criticising Mr. Watson, but we are all aware that in accountancy circles the accounting methods of the various Government Departments are subjected to very drastic criticism. When you listen to Mr. Watson and hear how gradual the various steps have been in the evolution of Government accounting, one is not surprised that in the short space of five years they failed to engraft on Government Departments such a drastic deviation from their method as they endeavoured to do in the War Office, and more especially when you consider that the machinery had to a large extent



to be worked by men who were so notoriously deficient in commercial experience as officers in the Army. There is one question I would like to ask Mr. Watson, and it is this: Are the methods of accounting in this country drastically different from what they are in other countries where they have up-to-date methods, such as Germany and America? Are they all on a cash basis, or have they got some principle more in accord with the recognised accountancy methods?

MR. A. E. WATSON: I do not really know where to start with Mr. Davis's questions. I would like to say at once that as far as income and expenditure accounts are concerned, I personally am strongly in favour of their use in a great number of cases. The difficulties in regard to our own accounts are these: First, the historical difficulty of altering Parliamentary procedure and method; and secondly, the difficulty of super-imposing them in Departments where other forms of accounting exist. As far as the Army system is concerned, the cost accounting system has left behind it this effect. In regard, for example, to the building of the Royal Engineers' huts, labour will in future be charged up; that is to say, the works services are to be costed fully for the future. The whole of the expenditure on works services is to be keyed up, and cost and cash accounts are to agree. It will no longer be possible to show as the cost of works services the sum of £15,000 which happens to be the direct cash expenditure; the Army will have to bring in the cost of all labour employed on the works. As regards the cost of hospitals, there is no doubt that the costing during the five years that it operated under the full system was extremely valuable, and it was on a direct request from the Treasury that the War Office added hospitals to the list of services to be costed for the future. As regards expenditure, at the end of the financial year, this always has been a difficulty in Government service, and there is not the slightest doubt that that is one of the drawbacks of the cash system—that there is a certain incentive to the officers charged with the administration of votes to get rid of the money at the end of the year—to buy something or other with it. Unfortunately it is true that the man who saves money on his estimates is often just as seriously slated for doing it as if he over-expended considerably. Some of us have been trying for a number of years to make clear the fact that there should be estimates which represent as nearly as possible the expenditure to be expected, and that if a man over-spends to some small extent—to 1 or 2 per cent.—he is not doing too badly. For example, in a commercial concern, if you are aiming at a 10 per cent. profit, and one year you get 9½ or 10½, it is considered pretty good work. If, on the other hand, a Government Department over-spends by so much as one-half of 1 per cent. it means an excess vote in Parliament and the gauntlet of Treasury criticism. So far as the War Office is concerned, it will in future have quite a number of cost accounts, which ought to show to people who understand them such things as over expenditure. As regards Part II works or building services, it is often possible for an officer in charge of works to describe his services in such a manner that he can get them in as maintenance. I do not think that is a very serious matter, for the reason that no great number of them could go in that way, and there is always the chance of being pulled up. As regards cost accounts agreeing in total with finance accounts, I think it is essential that they should be made to agree, and that can be done from the cash accounts. It does not spring immediately to notice, it requires considerable patience, but in order to make proper use of the cost accounts that ought to be done. I think Mr. Davis spoke about coal being charged in the Army vote which was used for railway purposes, electric light, pumping, &c. Well, as far as railways, electric light stations and pumping are concerned, there will be cost accounts in the future. Coal, &c., will be issued to the troops under scales, as they were always in the past. The War Office may not consider that they have sufficient staff to undertake the work, but it ought to be possible to see that all those services agree with the actual cash expenditure. I do not doubt Mr. Davis's statement, that one thing that has worked for the retention of a cost accountant is that there are being kept in certain cases accounts which have been officially abandoned. It is not a bad sign, and I for one should be very loth to take away from the C.O. an instrument which he considers to be a means of control over his unit.

Coming now to the more specific questions, a question was asked about the examination of claims for services rendered. A contract is made as between a Department and a contractor; a claim for supplies furnished under the contract is made to the Department. That claim is examined by an accounting branch, which has to obtain, first of all, a certificate that the supplies are right in quality, and secondly, a certificate that the quantity is correct. He has then to satisfy himself that the conditions under which the supplies were made have been properly complied with. Subject to that, he is usually in a position to authorise the payment of the claim. Naturally, it goes through a number of hands. You will find one man responsible for computation, another for securing the certificate of quality, &c., but having passed through those stages of examination it is the accounts branch which gives the authority for the issue of a warrant or cheque in payment. It is not the practice to send schedules of claims to a Minister, or Member of Parliament, before allowance. As far as the municipal service is concerned, they go through the accountant's office and are then passed by the appropriate committee of the local council. As far as the Government service is concerned, the duty of passing the claims is put upon a responsible officer of the accountant's department. As regards Mr. Irons' question as to the relationship between the Treasury and the Exchequer and Audit Department, the Treasury has a general control over accounting methods in the Department. Within the terms of the Exchequer and Audit Departments Acts, the Treasury prescribes the form in which the accounts are to be rendered, and controls the actual issue of cash required by the Departments. The Comptroller and Auditor-General has, first of all, the duty of seeing that issues made from the Exchequer are regular, and later the duty of auditing the accounts of the Departments, and reporting on those accounts to Parliament. But, as I have said, in regard to both those duties, he is entirely independent of Treasury control himself. For that reason he is made an officer of Parliament independent of the Executive. I think I have already dealt with Mr. Irons' question regarding the income and expenditure account. As to the valuation of stock, he made the point that the check on the quantities must be very carefully preserved. Of course that check on quantities is very definite in all Government Departments. In the Ordnance Department of the War Office, for example, there is first of all the stockholder, who is constantly looking around his stock to see that it is there: then there are the officers of his department who, in a cycle of three years, take physical stock of the whole of the stores; then there are the auditors of the War Office who take test checks from time to time of stocks in hand; and on the top of them all there is the Comptroller and Auditor-General who examines the store accounts of the Departments. And what operates in the case of the Ordnance Department of the War Office operates rather similarly in other departments. As regards cost accounts and the question of charging rent, it is the practice, in the cost accounts which are maintained in Government establishments, to charge sums which represent rental. Sometimes they are in the actual form of assessed rent for buildings occupied, and sometimes in the form of interest on capital taken to have been expended on the buildings and spent on the establishments, but invariably there is a charge which is designed to show in these accounts the whole cost of manufacture. Mr. Straker suggested that the problem in regard to the valuation of Army stocks was no greater than the problem of an ordinary commercial concern's valuation of its plant and machinery. It is solely a question of magnitude. I think even Mr. Davis will agree with me, that the accounting staff during the five years that the costing system was operating in the War Office found great difficulty in regard to this question of the valuation of warlike stores. There is, as regards armament stores, for instance, a list of 50,000 different things, in each of which there are, on an average, probably several thousand members of the class, each in a different stage of decay—that is to say, they have been for varying periods in use. Each of those items would have to be separately valued if you were to get a correct valuation of the stock. The fighting services find that almost impossible. They have made valuations under the classifications of "serviceable," "repairable," "doubtful" and "unservicable," which assure that the items are worth 100 per cent., 75 per cent., 50 per cent., and 10 per cent. respectively of the list prices, but both the Army and the Navy hold that that type of valuation is quite unreliable for the



purpose of arriving at a general total valuation. As regards general stores and materials the problem is not so difficult and it is hoped that regular valuation will be possible. Mr. Straker made the further point, about income and expenditure accounts, that the suggestion that if income and expenditure accounts were adopted it would be possible at the end of the year to vote sums which were necessary to meet any deficit which arose in the course of the year.

Mr. STRAKER: I was wondering whether the vote which had been over spent, part of which would still be owing, must be paid within the time for which the money was voted, or whether in effect the cash system is used to hide over expenditure in any year.

Mr. WATSON: I think the probability is there would be no difficulty in having what are in effect excess votes for the purpose of meeting any deficit. The outstanding liabilities at the end of the year, on orders given, are invariably brought into account in making up the estimates for the new year. There is in a sense a measure of control within the Department, but I am afraid it is not shown clearly to Parliament in the accounts which are presented. As regards Mr. Scott Moore's question about stocktaking at Woolwich, I think it rather went by the board during the war, but in peace time the ordnance factories at Woolwich do have an annual stocktaking, and an annual valuation both of stock and work in progress. As far as the rest of Woolwich is concerned, that of course constitutes the charge of the Deputy Director of Ordnance Service. The stocktaking there is taken over a period of three years, and there is no valuation. Mr. Morgan asked a question as to whether methods of accounting in this country are drastically different from those in other countries—that is to say, whether these other countries are on a cash basis. There is no country which has completely an income and expenditure account. Some are on the way to becoming that, but none of them are completely so. For the most part they work on cash accounts rather similar to our own.

On the motion of Mr. MORGAN, seconded by Mr. CHALK, a hearty vote of thanks to the Lecturer was unanimously passed, and the Chairman was also thanked for presiding.

### Changes and Removals.

Mr. F. W. Blatchford, Incorporated Accountant, has removed to Graham House, 66/68, Bree Street, Cape Town, South Africa.

Mr. Ascot Bush, A.C.A., Incorporated Accountant, has entered into partnership with Mr. R. B. Rhodes, F.C.A. The style of the firm will be Robt. Rhodes & Bush, and the practice will be continued at 18, Low Pavement, Nottingham.

Mr. E. H. B. Butler, Incorporated Accountant, has removed to Midland Bank Buildings, 7, Broad Street, Worcester.

Messrs. Dingle & Gee, Bank Chambers, Euston Road, Morecambe, announce that the partnership has been dissolved, and that the practice will be continued in future by Mr. Henry Gee, Incorporated Accountant, on his own account at the same address.

Messrs. Ford, Rhodes & Ford, Chartered Accountants, 48, Frederick's Place, Old Jewry, London, E.C.2, have taken into partnership Mr. R. S. Field, Chartered Accountant.

The partnership hitherto existing between Mr. P. Massingham Harper and Mr. H. E. Fawcett, Incorporated Accountants, has been dissolved. Mr. P. Massingham Harper will continue to practise on his own account at Bank Chambers, 329, High Holborn, London, W.C.1.

Mr. R. B. Hogg, Incorporated Accountant, has entered into partnership with Messrs. Whiteley Brothers, 12-19, Anmercosa House, Holland Street, Johannesburg, South Africa.

Messrs. Langton & MacConnal, Incorporated Accountants, have admitted into partnership Mr. F. J. Coombes, A.S.A.A. The practice will be continued under the same style at 22, Lord Street, Liverpool.

Mr. De Westley Layton, Incorporated Accountant, who since 1909 represented Messrs. Lowe, Bingham & Matthews in London, retired from practice on December 31st, 1926.

Mr. R. T. McCutcheon, Incorporated Accountant, is now practising at 74, Bath Street, Glasgow.

Mr. O. K. Morgan, Incorporated Accountant, has commenced public practice at Roman Bank, Skegness, having taken over the practice of the late Mr. H. W. Woodroffe, Chartered Accountant.

Mr. T. B. Rich, Incorporated Accountant, is now in practice at 68, Park Road, Stretford, Manchester, and has given up his office at 89, Fountain Street.

Messrs. Vaughan & Gregg, Incorporated Accountants, announce that Mr. A. F. Vaughan, F.S.A.A., has retired from the firm. Mr. Reginald Gregg, A.S.A.A., will continue the practice under the same style as heretofore at Lloyds Bank Buildings, King Street, Manchester.

### ROYAL NAVAL RESERVE

(ACCOUNTANT OFFICERS).

#### Annual Reunion Dinner.

The tenth annual reunion dinner of the Royal Naval Reserve, Accountant Officers, was held at Princes Restaurant, Piccadilly, on January 21st. The Mess President was Paymaster-Commander B. H. Cooper, R.D., R.N.R. The principal guests were:—Admiral Sir Lewis Clinton-Baker, K.C.B., K.C.V.O., C.B.E. (Admiral Commanding Reserves), Paymaster Rear-Admiral B. C. Allen, C.B., M.V.O. (Paymaster Director-General), Paymaster Rear-Admiral Sir W. M. C. Beresford Whyte, K.C.B., C.M.G., Vice-Admiral F. Wade Caulfield, Paymaster-Captain H. W. E. Manisty, C.B., C.M.G., R.N. (Deputy Judge-Advocate of the Fleet), Sir Charles Walker, K.C.B. (Deputy Secretary of the Admiralty), Mr. Thomas Keens, F.S.A.A., Sir James Martin, J.P., F.S.A.A., Sir Walter Schroder, K.B.E., Paymaster-Commander S. S. C. Parsons, O.B.E., R.N., Captain H. W. Longden, C.M.G., R.N., Paymaster-Captain Joseph Hall, R.N., Mr. W. J. Evans, C.B., C.B.E.

Among those present were:—Paymaster-Commander R. M. Heath, R.D., R.N.R., Paymaster-Commander A. F. Stoy, R.D., R.N.R., F.C.A. (Hon. Secretary), Paymaster-Commander H. V. Such, O.B.E., R.D., R.N.R., Paymaster-Lieut. H. Alden, R.N.R., A.S.A.A., Paymaster-Lieut. R. Ashworth, R.N.R., F.S.A.A., A.C.A., Paymaster-Lieut. H. D. Bell, R.N.R., F.C.A., Paymaster-Lieut. N. Bell, R.N.R., F.C.A., Paymaster-Lieut.-Commander E. Allison Burrows, R.N.R., A.S.A.A., Paymaster-Lieut. B. Collett, R.N.R., F.C.A., Mr. W. J. Crafter, A.S.A.A., Lieut. C. R. Croft, R.F.A., A.S.A.A., Mr. E. S. Davies, A.C.A., Paymaster-Lieut. W. J. Dowdell, R.N.R., F.C.A., Paymaster-Lieut. A. A. Garrett, R.N.R., Paymaster-Lieut. J. Wilmer Greene, O.B.E., R.N.R., A.C.A., Paymaster-Lieut. R. J. Hayward, R.N.R., A.C.A., Paymaster-Lieut. F. G. Jenkins, R.N.R., A.C.A., A.S.A.A., Mr. H. Kingston, F.S.A.A., Mr. F. H. Lee, F.S.A.A., Mr. N. Clarke Lens, A.S.A.A., Paymaster-Lieut.-Commander T. Martin, O.B.E., R.D., R.N.R., C.A., Paymaster-Lieut. S. H. Mearns, R.N.R., C.A., Paymaster-Lieut. R. J. Pigott, R.N.R., F.C.A., Paymaster-Lieut.-Commander A. Simon, O.B.E., R.N.R., A.C.A., Paymaster-Sub-Lieut. G. Alan Smith, R.N.R., F.S.A.A., Paymaster-Commander H. B. Tuffill, C.B.E., R.D., R.N.R., Paymaster-Lieut. T. Linton Wilson, R.N.R., F.S.A.A.

After the toast of "The King," the Vice-President gave "Absent Friends." The toast of "The Guests" was proposed by the Mess President, and a response was made by Vice-Admiral F. Wade Caulfield. Paymaster Rear-Admiral B. C. Allen (Paymaster Director-General of the Navy) proposed the "Royal Naval Reserve, Accountant Officers," and a reply was made by Paymaster-Lieut.-Commander R. F. Vandervord, R.N.R.

## Municipal Trading—Finance and Accounting.

A LECTURE delivered before the Incorporated Accountants' Students' Society of Glasgow by

MR. ALEX. PHILIP, A.I.M.T.A.  
(Internal Auditor, Greenock Corporation).

The chair was occupied by Mr. A. T. DUNLOP, Incorporated Accountant.

The subject "Municipal Trading—Finance and Accounting" is rather comprehensive, and I therefore propose confining my remarks to the major trading undertakings of Scottish Municipal Corporations and to the financial aspects thereof, which I consider might be helpful to intending accountancy examinees engaged in commercial practice who may not have the opportunity of gaining an insight into the mysteries of the financial operations of a municipality.

Local authorities have under public and private Statutes acquired gas, water, electricity and tramway undertakings from companies and trusts, a not uncommon provision in the Statutes being that authorising a company to act for a limited number of years, after which the undertaking may be acquired by the municipality of the area of supply.

### CAPITAL—RAISING AND APPLICATION.

The financing of local authority undertakings varies somewhat from the financing of commercial undertakings.

The major portion, if not the whole, of the capital expenditure on municipal trading undertakings is met out of borrowed moneys. Close co-operation between the manager and the financial officer is therefore essential, as in the interests of efficient administration regard must be had to the necessity for installing new plant or extending works, and at the same time the price which will have to be paid for the moneys raised to meet the cost.

Embarking upon capital expenditure has far reaching consequences, the effect of which is most apparent where new works are not absolutely essential and are installed at a time when money is dear. In such circumstances not only do the loans charges become a heavy burden on the undertaking (reflecting themselves in high charges for the commodity supplied or the service rendered) but, as I shall refer to later, the charge in respect of imperial and local taxation is adversely affected.

Local authorities in Scotland acquire their borrowing powers under sanction from Parliament by Local Acts, approval of Provisional Orders, and under the Public General Statutes. The sanction of any central department as a preliminary to the exercise of these powers is not always necessary, although legislation of recent times has tended in this direction.

As for the mode of raising capital, local authorities generally obtain their requirements by issues of stock, mortgages, annuities, promissory notes, bills, temporary loans on simple receipt and bank overdraft, and, in the case of the larger local authorities in Scotland, by virtue of local Acts sinking fund moneys on hand may be utilised for new capital purposes in lieu of re-borrowing. Town councils have also a general power to apply any sinking fund moneys which they may have on hand for temporary purposes.

Which method of borrowing should at any time be adopted is merely a matter of prudent financial administration. It must be kept in view that the trading undertakings of local authorities are not the only works which have to be financed out of borrowed moneys, and accordingly the chief financial

officer of a local authority must have regard to the requirements of his corporation as a whole when determining the mode of borrowing.

As moneys are borrowed (other than by temporary loan on simple receipt and bank overdraft) these are applied or appropriated to the specific purposes for which they are required. This practice tends to a system of earmarking loans to specific purposes, and accordingly restricts flexibility in loans operations. By the establishment of loans funds, however, with a view to pooling all moneys in whatsoever manner borrowed, the more progressive local authorities are endeavouring to remedy this defect.

### CAPITAL REDEMPTION.

The chief distinction in the capital of local authority undertakings, as compared with company undertakings, lies in the fact that local authorities are statutorily required to provide for the redemption of all their debt.

To permit of a proper appreciation of how in practice provision for debt redemption is made, it requires to be understood that the instrument of debt—the mortgage, bond, stock certificate, &c.—is looked upon merely as a means of obtaining funds, and that the currency thereof is not in any way related to the statutory period for redemption, *e.g.*, stock invariably runs for periods of forty or sixty years, and mortgages from three to ten years, whereas the periods statutorily prescribed for redemption of debt vary from five to sixty years. Thus, where moneys are not borrowed for periods coincident with the periods prescribed for redemption of moneys expended capitally, it is necessary to divorce the two and consider the question of provision for redemption of capital chargeable to revenue as one altogether apart from repayment of loans to lenders.

A statutorily prescribed period for redemption of debt invariably approximates to the life of the asset for which the moneys are borrowed, and thus the total amount of borrowings for any capital purpose is the amount upon which redemption provision to be charged to revenue is calculated. Where a real consolidated loans fund is in operation, statutory provision for redemption of debt is calculated upon the actual capital expenditure on the purpose. In the normal Scottish burgh, however, while the calculation is made upon the appropriations of borrowings to specific purposes, these appropriations invariably approximate to the actual capital expenditure on the purposes. Where a "purpose" is under-borrowed then provision must be made, having regard to the amount at debit of capital account, and where a purpose is over-borrowed provision for redemption must be made on the amount of loans raised.

In making provision for redemption, local authorities may adopt three methods:—

- (1) *Instalment System*, by which equal annual instalments of principal are charged to revenue. Interest is also charged on the balance outstanding at the end of each year;
- (2) *Terminable Annuity System*, by which equal annual instalments of principal and interest combined are charged to revenue; and
- (3) *Sinking Fund System*, which may be either—
  - (a) *Accumulating*, *i.e.*, providing for fixed annual contributions being charged to revenue and credited to a sinking fund, and which, accumulating at compound interest at a prescribed rate, will amount to the required sum at the end of the prescribed period; or
  - (b) *Non-Accumulating*, *i.e.*, providing for fixed annual contributions being charged to revenue and credited to a sinking fund not required to accumulate at compound interest, but which will amount to the required sum at the end of the prescribed period.



The effect of the adoption of any of these systems is important. The first system—the instalment system—involves a heavy charge to revenue during the earlier years of the loan as, an equal amount of the principal being charged each year, it is evident that the amount of the interest to be paid on the outstanding balance of the principal must necessarily decrease annually. For this reason the adoption of the instalment system is particularly suitable where borrowed moneys have been applied in, say, installing new plant, in which case during the latter years the charge to revenue for repairs will be gradually increasing. The second system—the annuity system—has the advantage of spreading the cost equally throughout the prescribed period, but in total the cost is greater than under the instalment system. The third system—the sinking fund system—if accumulating, approximates to the annuity system, and if non-accumulating, approximates to the instalment system. The sinking fund system is the most costly, as interest has to be paid on the whole amount throughout the whole of the period of redemption. It is contended in some quarters that actuarially the cost by any of the systems is the same in the long run.

Generally speaking, in practice, provision for debt redemption is made according to the sinking fund system, or some unorthodox version of that system.

Did the law not permit other than that sinking fund moneys should be invested in statutory securities or applied in reduction of debt, then sinking funds would present the usual difficulties of management, *i.e.*, in finding suitable investments which each year would give the required amount to be credited to the fund. As it is, the Burgh Police (Scotland) Act, 1903, provides for the utilisation for temporary purposes of any sinking fund moneys which a town council may have on hand, and as already stated some of the larger local authorities have power to utilise their sinking funds for new capital purposes. Where these powers are exercised then, in lieu of the interest which would be earned on the sinking fund contributions were they separately set aside and invested, a charge for interest is made to revenue calculated on the amount of debt redeemed. The investment difficulty is thus removed, and a greater flexibility in the management of the finances is obtained.

So much for redemption of capital expenditure. What of the actual repayment of loans? Year by year loans are repaid to lenders, the total amount of which might be in excess of or less than the amount of the provision made for redemption of capital expenditure. The repayments to lenders are met out of sinking fund moneys, *i.e.*, the debt redemption provision for the year plus the sinking funds in hand. Where, then, the total amount of loans actually repaid in cash to lenders in any year is less than the amount charged to revenue as sinking fund provision, only the excess is considered as a credit to sinking fund for that year. On the other hand (which is unusual) if the total amount repaid to lenders exceeds the charge to revenue in respect of sinking fund, plus any sinking fund moneys in hand, then the excess is considered as a repayment of capital.

#### SUSPENSION OF SINKING FUNDS.

Where it is desired to suspend sinking fund payments during periods when capital expenditure on works will be unremunerative it is usual for power to be obtained by local Act. Provision has, however, been made under the Local Authorities (Financial Provisions) Act, 1921, granting powers to certain local authorities to suspend sinking fund payments where the expenditure is for construction of revenue-producing works. The period of suspension (which may not exceed five years from the commencement of the financial year next after that in which the expenditure commences to be incurred)

and the conditions attached thereto are determined by the central authorities. A power of granting postponement of sinking fund contributions was conferred on the Electricity Commissioners by the Electricity (Supply) Act, 1922.

#### CAPITALISATION OF INTEREST.

The power to capitalise interest is only granted in special cases. A clause providing for the capitalisation of interest for a given period is generally included in the special local Act authorising the works. Each case is dealt with by Parliament on its merits, having regard to the fact that the Select Committee on Repayment of Loans by Local Authorities reported in 1902 against the principle.

#### DEPRECIATION AND DEBT REDEMPTION.

No doubt you will have heard and read much (even in connection with one of the municipal trading undertakings in this city) on the vexed question of the necessity for a full provision for depreciation over and above provision for debt redemption. In this connection it is necessary to consider municipal trading undertakings in relation to similar undertakings operated by companies. There are three main points:—

First, companies are, generally speaking, under no obligation to provide for the redemption of their capital, while municipalities providing similar services are statutorily compelled to provide for the redemption of all their debt.

Second, the ultimate aim of the operation of public utilities by companies is "profit," and accordingly until such time as the wastage of the asset is provided for no "profit," in a strict accounting sense, could be said to have accrued. On the other hand, municipal trading undertakings do not primarily operate for profit in the commercial sense, and thus it is doubtful how far provision for the wastage of the asset is necessary.

Third, public utility companies operating under the Public General Statutes and Special Acts, &c., are in cases required in fixing their charges to raise sufficient income "to provide for a depreciation and renewals fund sufficient to maintain the works in perpetuity." In the case of municipal trading undertakings it is generally considered doubtful whether powers exist authorising them to provide for depreciation beyond what is permissible under the guise of reserve funds provided for under Statute.

Now, while it cannot be said that a sinking fund (as representing provision for debt redemption) is the same as a depreciation fund, it in a large measure performs the same function. I have already indicated to you in considering the question of providing for the redemption of capital expenditure that the redemption period is fixed having regard to the estimated life of the various parts of the undertaking, but this is also the basis of depreciation provision. Indeed, the "probable lives" of assets for debt redemption purposes are generally estimated on a conservative basis, and accordingly sinking fund provision is generally more than would strictly be required for depreciation. Thus, whether a sinking fund or, on the other hand, a depreciation fund be created, it appears the result is the same, *i.e.* :—

- (1) If a sinking fund is provided but no depreciation fund, then a fund is available at the end of the life of the asset to pay off the loan wherewith the asset was acquired.
- (2) If a depreciation fund is provided but no sinking fund, then a fund is available to renew the asset at the end of its life.

To replace the asset in the case of the sinking fund, re-borrowing would be necessary, and that would mean a renewal of the charge to revenue for redemption. To replace the asset in the second case the depreciation fund would be utilised, but the charge to revenue to build up the depreciation



fund would begin anew. Such being the case, is it necessary for municipalities to make the double provision, i.e., for both sinking fund and depreciation. To do so it is strongly argued in some quarters would be inequitable as between one generation and another of users of the commodity or service.

It is thought generally that if the operation of the sinking fund is as swift as the depreciation of the asset, no further provision is necessary except in the event of obsolescence and possible loan equations, which would necessitate special consideration. In this connection the Departmental Committee on Local Authorities Accounts in 1907 recommended to the effect that repayment of debt might properly be regarded as provision for depreciation, but that should the period allowed for repayment be excessive, then further provision for depreciation should be made. By way of compromise some local authorities give effect to this recommendation by making a charge to revenue for depreciation more than sufficient to meet, and out of which is met, the charge for debt redemption.

#### RATING.

The charge in the revenue accounts of municipal trading undertakings in respect of local rates is invariably not inconsiderable. Two of the contributing factors are obvious: first, the amount of local rates exigible per £ of assessable value in the area or areas in which undertakings might be situate; and second, the assessable value of the undertakings themselves upon which local rates are payable. There is a third factor to which I shall refer later.

The basis of assessing trading undertakings to local rates is the gross value as entered in the valuation roll, subject to certain modifications in arriving at assessable value, e.g., for the purposes of:—

(1) *Burgh Rates.*—The public general statutes prescribe that in burghs underground works are to be assessed on one-fourth only of the gross value as entered in the valuation roll. This concession does not, under the general law applicable to Scotland, apply to electricity mains and cables, but this is no doubt due to the fact that at the time provision as to differential rating for underground works was statutorily made (1892), such plant as electricity mains and cables was not in existence to any considerable extent.

(2) *Parish Rates.*—In ascertaining assessable value a deduction is granted in respect of the "probable average annual cost of repairs, insurance and other expenses, if any, necessary to maintain the lands and heritages in their actual state, and all rates, taxes and public charges payable in respect of the same." The amount of the deduction from the gross value to arrive at the net value for parish rating purposes is, however, not statutorily prescribed, but is in the discretion of each parish council. There is accordingly no uniformity; in some cases no allowance is made, and in others the allowances range from 2½ per cent. to 65 per cent.

A Bill has recently been introduced into the House to amend the law relating to rating in Scotland. It is proposed that the differential rating referred to as regards burgh and parish rates be repealed, and that the assessable value for all rating purposes be the gross value less a specified percentage deduction from the whole value of the lands and heritages forming part of trading undertakings.

#### VALUATION.

Unlike Imperial taxation, which is considered as an appropriation of profit, local taxation is a direct charge in primarily ascertaining "gross surplus" or "profit," and accordingly the effect of local taxation on "cost of production"

is such as to compel due care being exercised by the financial officer that all allowances properly obtainable are received in determining the valuation of undertakings.

In Scotland the valuation of properties for rating purposes is in general undertaken by assessors locally appointed by county and town councils. In some cases the person appointed is an Inland Revenue official. For the purposes of valuing railways, canals, &c., and in certain circumstances the trading undertakings of local authorities, a Government official known as the Assessor of Railways and Canals is statutorily appointed.

The expense of valuing by the county or town assessor is met out of a lands valuation rate levied on the subjects valued, but the expense where an Inland Revenue official is responsible for the valuation is met by the Crown. In the case of the valuations made by the Assessor of Railways and Canals the undertakers are liable to contribute to the cost of the various undertakings valued by him in the ratio which the value of each undertaking bears to the total valuation. In this latter connection it has been determined in a recent decision of the Courts that where an undertaking is valued by the Assessor of Railways and Canals, then the local authority in whose area such undertaking may be situate cannot also levy on such undertaking a lands valuation rate.

It may be useful to review briefly how gross value is arrived at for the purposes of assessment of trading undertakings to local rates.

The first point to be determined in considering the valuation for rating purposes of a municipal trading undertaking is whether or not it is profit-earning (i.e., statutorily, whether the intention of the undertakers is profit-earning or non-profit earning).

An undertaking is assumed to be:—

(a) *Profit-earning.*—If any surplus may be and is actually earned in excess of the prescribed statutory expenditure. This class is usually referred to as "limited profit-earning."

(b) *Non-profit-earning.*—If it is statutorily provided in each year that the revenue is as near as possible to meet the expenditure, including sinking fund, interest, depreciation and reserve fund.

The distinction is important as regards allowance for tenant's profit and landlord's expenses.

The Lands Valuation Acts do not prescribe any method by which trading undertakings are to be valued although "annual value" itself is defined as being "the rent at which one year with another lands and heritages might in their actual state be reasonably expected to let from year to year." Of the three methods for ascertaining this "rent" that which has been adopted by lands valuation assessors (and concerning which a mass of case law has evolved) is what is termed the "Revenue Principle."

The application of this principle involves an estimate being made of the rent which under normal conditions a hypothetical tenant would be likely to pay. In practice such a rent is assumed as being equivalent to gross revenue less outgoings (excluding expenditure in connection with new works not productive at the time the valuation is made). The rent is estimated by deducting from the gross revenue for the last completed financial year (after allowing for bad debts and miscellaneous receipts not effecting to trading undertakings proper), the cost of management, working charges and costs of maintenance and repairs. These expenses are allowed wholly in the case of non-profit earning concerns, but in the case of limited profit-earning undertakings such expenditure falls to be allocated between landlord and tenant.

In addition, a percentage deduction is allowed in respect of tenant's floating capital and tenant's chattels, and in the case of limited profit-earning undertakings a modified percentage deduction is granted in respect of tenant's profits.

The sum arrived at along with the appropriate figures for the three or five preceding years is averaged, and the amount thus ascertained is taken as the valuation of the undertaking. This is the "cumulo value" of course, and, where the undertaking extends into the areas of more than one local authority, the cumulo value requires to be apportioned in the ratio usually which the structural cost of the undertaking or the revenue earned in each area bears to the corresponding total structural cost or total revenue earned.

The third factor contributing to the burden of local rates on an undertaking and to which I previously alluded may now have become apparent to you. It is the amount of debt which an undertaking carries. A proportionate amount of the gross revenue represents the provision made in respect of redemption of debt, and as no allowance is made in respect of this in arriving at the annual value, the amount of the provision which reflects the amount of the debt on the undertaking becomes an important factor in the valuation. As the debt on an undertaking is gradually redeemed then the valuation of the undertaking for rating purposes relatively diminishes.

#### INCOME TAX ON PROFITS.

Municipal trading undertakings, whether classed as profit-earning or non-profit-earning, are primarily liable to contribute to the Imperial Exchequer. It has been contended that municipally owned undertakings should be exempt from income tax, or that at least local authorities should only hand over any tax deducted by them acting as collectors for the Crown. This it is thought would to a certain extent compensate the exemption of government properties, or at least their partial exemption from local rates. On the other hand, it is thought that this would give municipally owned undertakings an undue advantage over company undertakings, and at all events the relief which would be obtained by the consumers or ratepayers in their corporate capacity would require to be met by them in their individual capacity as taxpayers, although of course the incidence would be altered.

The Finance Act, 1926, has amended the basis of assessment of municipal trading undertakings to income tax in that these from the income tax year 1927-28 are all to be assessed under Case I, Schedule D, on the profits of the year preceding the year of assessment. Formerly, and for the year 1926-27, electricity and tramway undertakings were assessed under Schedule D on the average profits of the three years preceding the year of assessment, while the profits of gas and water undertakings were assessed under Schedule A, No. III, on the profits of the year preceding the year of assessment but according to the Rules applicable to Schedule D.

The method of computing the statutory profit of municipal trading undertakings for income tax purposes is similar to that for commercial undertakings, with which you are no doubt familiar, but in the case of municipal trading undertakings there are certain items of expenditure, not common to commercial accounts, allowed as a charge against profits, *e.g.*:-

- (1) Proportion of cost of general establishment expenses whether or not transfers have actually been made in the books of the local authority.
- (2) Interest paid in full without deduction of tax, *i.e.*, interest to Public Works Loans Commissioners.
- (3) Profits on supplies to non-trading departments connected with the same rate fund.

The methods of allowing for wear and tear and obsolescence in the case of municipal trading undertakings have been the subject of agreement between the Board of Inland Revenue and the Institute of Municipal Treasurers and Accountants (Incorporated), but these methods are not rigid in their application to all undertakings. Generally speaking, fixed percentage rates of depreciation are allowed in the case of electricity undertakings, and a formula has been evolved in the case of tramways undertakings. In so far as gas and water undertakings are concerned, however, in lieu of the wear and tear allowance and the allowance in respect of obsolescence, the actual expenditure on repairs and renewals as and when incurred may be charged as a working expense. The excess expenditure on repairs and renewals which in any one year may not be given effect to where profits have fallen short may, as in the case of unallowed depreciation, be carried forward to future years.

#### INCOME TAX—SET OFF.

Local authorities, in addition to paying tax on profits by direct assessment, also act in the capacity of collectors for the Inland Revenue similarly as individuals do when paying any annual interest, &c., by deducting the tax thereon. Income tax, therefore, is deducted by local authorities from the interest paid on the loans on their trading undertakings, but this is not necessarily wholly accounted for to the Inland Revenue where tax is actually paid on the profits of these undertakings. Interest on the loans of trading undertakings being paid out of profits brought into charge, tax is retained to the extent of tax on the assessed profits, and only the balance is paid over to the Inland Revenue authorities. Were this tax not retained a double assessment would be effected, as interest is not allowed as a charge against profits for income tax purposes. This is invariably referred to as internal set off, and the analogy to company undertakings is readily perceived.

For the purposes of external set off (*i.e.*, the set off of surplus taxed income of trading undertakings against interest on loans of rate accounts which is peculiar to municipalities), local authorities are not considered individually as one entity but as a number of entities dependent upon the number of separate rate accounts or funds. Thus where two or more trading undertakings are related to the same rate account only, may any profit on one be set off against a loss on another. Also, the whole of the taxed profits and the income of local authorities is not available as set off against the whole of the interest, &c., from which tax is deducted by them. The fact that Scottish local authorities have so many assessments, and accordingly several separate assessment accounts, reflects adversely to their interests in this respect.

The factor which determines the right of external set off of profits against interest, as settled by the *Leeds* case of 1911, is the fund or account to which undertakings may legally transfer their profits. It is immaterial what amount can be so transferred, or whether transfers are actually made or not, as it is the determined "available" taxed profits (or the maximum proportion thereof where the power to transfer is statutorily limited) that constitutes the measure of set off.

The "available" taxed profit of trading undertakings for set off purposes is ascertained by (1) adding to the profits as adjusted for income tax purposes all the other income of the undertaking brought into charge to income tax (*e.g.*, interest, rents, &c., received net), and (2) deducting therefrom payments from which tax has been deducted by the local authority (*e.g.*, rents and interest on loans from which set off has already been obtained), and (3) also deducting either the allowance in respect of wear and tear plus the difference in



the gross and net Schedule A values of buildings containing machinery, &c., or the statutory contributions to redemption of debt, whichever is the greater. This available taxed profit, along with any taxed income of the rate fund, is the set off against the interest on loans and any other payments from the rate fund from which tax has been deducted. The net liability for income tax is thus ascertained—the financial advantage derived from set off accrues to the rate account.

#### RELIEF OF RATES.

One could hardly conclude these notes without a reference to that highly controversial phase of municipal trading undertakings finance: the transfer of profits to relief of rates. I do not propose to enter the "lists" and run the gauntlet of an evening's debate on the subject, but there are one or two points which as students we should do well to bear in mind.

An authority for the transfer of profits in relief of rates is to be found in the Public General Statutes relating to electricity and tramways. Numerous local Acts contain certain clauses making it optional for local authorities to appropriate the surplus revenues of their trading undertakings in this manner after all obligatory charges have been met. We are told that during the year 1924-25 there was transferred to relief of rates altogether by 95 authorities no less a sum than £763,931, while deficiencies of fourteen undertakings charged on the rates amounted to £13,049.

In contradistinction to the popularity of obtaining this power by local Act it is worthy of note that while the recent tendency of the Local Legislation Committee when considering municipal Bills has been to adhere to the principle that municipal trading undertakings should be self-supporting, involving neither profit nor loss to the rates, general legislation in the form of the Electricity (Supply) Bill, at present before Parliament, proposes to confer a general power as regards the transfer of surplus profits, subject to the fulfilment of certain conditions.

It has generally been agreed in debates on this topic that where an undertaking supplied not only the area of the local authority operating it but also the areas of other local authorities contiguous thereto and revenues of the undertaking were more than sufficient to meet the expenditure, then the prices charged to consumers should be appropriately reduced. The converse of this, however, is provided for under the Electricity (Supply) Bill, but this is due no doubt to the growing opinion that the local authority carrying the liability of a trading undertaking serving the areas of other local authorities is entitled to some recompense.

It is, indeed, a most perplexing problem!

I trust that these notes will at least have proved interesting and not soporific to those present whose examination days have gone.

#### THE SOCIETY'S EXAMINATIONS.

Attention is called to the fact that the Examination Committee of the Council have specially recommended for study for the Final examination, in addition to Marshall's "Economics of Industry," the work on "The Economics of Private Enterprise," by J. Harry Jones, M.A. (Sir Isaac Pitman & Sons: 7s. 6d.). Questions based on Professor Jones's book (as well as on Marshall) will be set for the first time in May, 1928.

#### PUBLIC AUDITORS

##### Under the Friendly and Industrial and Provident Societies Acts.

The Lords Commissioners of His Majesty's Treasury have been pleased to appoint the following Incorporated Accountants to act as Public Auditors for Great Britain for the year ending December 31st, 1927, under the provisions of the Friendly Societies Act, 1896 (59 & 60 Vict., cap. 25), and the Industrial and Provident Societies Acts, 1893 to 1913 (56 & 57 Vict., cap. 39, and 3 & 4 Geo. V, cap. 31), viz:—

- Acock, R. G., 69, London Street, Norwich; Wayland Hall, Watton, Norfolk.  
 Alban, F. J., Central Chambers, Newport, Mon.  
 Alexander, J. H., City Chambers, East Parade, Leeds; 12, Gladstone Street, Cross Keys; York House, Blackwood, Mon.; Market Buildings, Ebbw Vale.  
 Alexander, P., 43, Chancery Lane, London, W.C.2.  
 Allen, H. J., 37, Surrey Street, Sheffield.  
 Andrews, E., 12, Abbey Square, Chester.  
 Antoine, B. W., 2, The Mall, Ealing, London, W.5.  
 Armon, G. A., Bank House, 95, High Street, Lewisham, London, S.E.13.  
 Armstrong, H. J., 2, Saville Place, Newcastle-on-Tyne.  
 Armstrong, J., 22, Station Road, Workington.  
 Armstrong, J. W., 2, Collingwood Street, Newcastle-on-Tyne.  
 Arnold, C., 12, Wellington Road, Rhyl.  
 Ashworth, W., 7A, Yorkshire Street, Burnley.  
 Aspray, N., "Olney," Middlefield Lane, West Hagley, Wores.  
 Atkins, J. R., 76, Derby Street, Macclesfield.  
 Atkinson, W. G., Loddington House, 42, Albert Street, Rugby.  
 Avison, Owen, 1, Cloth Hall Street, Huddersfield.  
 Baines, J. V., Curry's Chambers, 115, High Street, Stockton-on-Tees.  
 Baker, W. B., 9, Bridge Street, Berwick-on-Tweed.  
 Barrowcliff, C. Percy, 55 & 57, Albert Road, Middlesbrough.  
 Bartlett, R. Wilson, 24, Bridge Street, Newport, Mon.  
 Bausor, H., 20, Ebers Grove, Mapperley Park, Nottingham.  
 Bayliss, W. M., 16, Broad Street, Oxford; Market Square, Buckingham; Church Square, Leighton Buzzard, Beds.  
 Beer, W. W., 17, Bedford Circus, Exeter.  
 Benbow, L., 2A, Sheep Street, Northampton.  
 Bicker, E., Lloyds Bank Chambers, 45 & 47, Old Christchurch Road, Bournemouth.  
 Binns, J., Exchange Buildings, Mirfield.  
 Black, W. C., 147, High Street, Newport, Isle of Wight; 17, King's Terrace, Southsea; 57, High Street, Ventnor, Isle of Wight.  
 Blandford, E. W. E., Capel House, 54, New Broad Street, London, E.C.2.  
 Blythen, S., Victoria Chambers, Long Eaton; Market Place, Ilkeston.  
 Bowen, G. Brinley, 22, Wind Street, Swansea.  
 Bradley, E. R., 584, Christchurch Road, Boscombe; 110, Seabourne Road, Southbourne; 2, Church Street, Christchurch.  
 Branson, R. M., Prudential Chambers, Gray Friars, Leicester.  
 Brazier, A. G., 15, Woodstock Road, Croydon.  
 Brewer, A. H., 3, Wood Street, Queen Square, Bath.  
 Broadbent, J. W., 36, Clegg Street, Oldham.  
 Brodie, J. Paterson, Moor House, Moorland Road, Burslem.  
 Brodie, R. M., 29, Scale Lane, Hull.  
 Bromfield, J. H., 130, Powke Lane, Blackheath, Birmingham.  
 Bromley, J. W., Winton Place, 19, Knowles Road, Batley.  
 Brown, E. T., Gresham Chambers, Lichfield Street, Wolverhampton.  
 Buckle, C. D., 25, Cheapside Chambers, Bradford.  
 Buckley, A. N., Union Chambers, 45 & 47, Commercial Street, Halifax.  
 Bull, E., Bank Chambers, Devizes.  
 Burgess, G. W., 14, St. Mary Axe, Leadenhall Street, London, E.C.3.  
 Burlinson, W. D., Union Bank Chambers, Batley.  
 Burn, J. F., Trafalgar Buildings, 1, Charing Cross, London, W.C.2.  
 Bush, B., 34, Grey Street, Newcastle-on-Tyne.



- Butler, J., 26, East Parade, Leeds.  
 Carr, E. R., Rowton Buildings, 11, Bowling Green Street, Leicester; Savings Bank Chambers, Nottingham Street, Melton Mowbray.  
 Carr, W., 27, Regent Street, Barnsley.  
 Cattell, W. C., Bank Chambers, High Street, Kettering; Argus Chambers, High Street, Rushden.  
 Cessford, J. C., 15, Queen Street, Edinburgh.  
 Chadwick, A., 16, Bolton Street, Bury; 8, Garden Street, Ramsbottom, Lancs.  
 Claridge, C. E., 53, Well Street, Bradford.  
 Claridge, W., 53, Well Street, Bradford.  
 Clark, W., County Bank Chambers, Bradshawgate, Leigh, Lancs.  
 Clarke, F. N., 4, Pavilion Buildings, Brighton; 2, North Street, Horsham.  
 Clarke, S. W., 31, Castle Hill, Lancaster.  
 Clarkson, J. P., 16, Devonshire Square, Bishopsgate, London, E.C.2.  
 Clarkson, P. D. J., 19, Winckley Square, Preston; Kent's Bank Road, Grange-over-Sands, Lancs.  
 Clayton, W., Milton Chambers, Milton Street, Nottingham.  
 Clinch, S. H., 119, Moorgate, London, E.C.2; Hurdie House, Broad Street, Seaford, Sussex.  
 Clough, N., Old Bank Chambers, Cleckheaton; 7, West Street, Morecambe, Lancs.  
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 Cooper, W. H., 102, Queen Street, Maidenhead, Berks.  
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 Crowe, S. E., 1, Albion Street, Leeds.  
 Crowther, E., 10, Regent Street, Barnsley.  
 Cryer, M. P., Old Bank Chambers, Keighley.  
 Cunliffe, A. R., Station Buildings, 24, Railway Street, Nelson.  
 Daffern, T. M., 19/20, High Street, Coventry.  
 Davey, H., Hyland Buildings, Wood Street, Wakefield.  
 Davies, T., Wyndham House, Bridgend.  
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 Deacon, A. G., 13, St. Ann Street, Manchester.  
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 Dyer, S. A., 5, Fenwick Street, Liverpool.  
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 Edwards, H., 61, Wind Street, Swansea.  
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 Ellworthy, J. M., 13, Sherborne Lane, King William Street, London, E.C.4.  
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 Evans, H. R., 17, George Street, St. Helens; Bank Chambers, Church Street, Prescott, Lancs.  
 Evans, T. A., Ffrwd Offices, Mountain Ash.  
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 Fortune, G. W., 26, Forrest Road, Edinburgh.  
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 Fox, F. W., 14, King Street, Leicester.  
 Freeborough, J. H., 25, Figtree Lane, Sheffield.  
 Fry, F. W., 27, Clements Lane, London, E.C.4.  
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 Gardiner, F. C., Barclays Bank Chambers, Scarborough.  
 Girling, A. F. J., Eldon Buildings, 20, Eldon Street, Barnsley.  
 Godkin, H., 53, Baxter Gate, Loughborough.  
 Gore-Gardiner, H. T., 50, Cawley Road, London, E.9.  
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 Greenwood, A., 20, Bond Street, Dewsbury.  
 Griffin, C. E. B., Bank Chambers, 8, Church Street, St. Helens.  
 Griffin, G. R., Newton Chambers, 43, Cannon Street, Birmingham.  
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 Henderson, J. H., Wilson's Chambers, 7, Greek Street, Leeds.  
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 Hustwick, W., 70, Kirkgate, Bradford; 5, The Green, Idle, Bradford.  
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 Ingram, A. J., 32, West Sunnyside, Sunderland.  
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 Kilby, F., Drury Chambers, Market Square, Northampton.  
 King, G. C., 110, Edmund Street, Birmingham.  
 Lake, J., Gower Chambers, Swansea.  
 Lambert, W. E., Essex House, High Street, Stratford,  
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 Lapish, J. B., Pearl Chambers, East Parade, Leeds.  
 Larder, C., Camomile Street Chambers, Bishopsgate,  
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 Leah, H. B., 9, Warren Street, Stockport.  
 Lee, F., Market Cross Chambers, Huddersfield.  
 Liversidge, H. G., Imperial Buildings, Rotherham.  
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 Lord, J. H., Bank Buildings, Bacup.  
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 Mock, W. J., Elmwood, Truro.  
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 Norfolk, W. J., 8, East Stockwell Street, Colchester.  
 Oates, G. G., 4 & 5, Oriental Chambers, Doncaster.  
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 Oldfield, J. W., 5, Rose Grove, Mytholmroyd, Yorks.  
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 Palmer, E. H., Bentinck Buildings, Wheeler Gate, Nottingham.  
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 Pugh, H. G., Oswyn House, 20, Oswald Road, Oswestry.  
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 Scarlett, C. S., 5, Cecil Square, Margate; 36, High Street,  
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 Schofield, A., 112, Albion Street, Leeds.  
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 Slater, J. T., 11, Queen Street, Oldham.  
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 Snow, W. K., 55, Quarry Street, Guildford; South Street,  
 Farnham, Surrey; 31/32, Carfax, Horsa, Sussex.  
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 Starkie, R. E., 6, South Parade, Leeds.  
 Stephens, C. T., Post Office Chambers, Pontlanfraith, Mon.  
 Stephens, F. W., 26-30, Salisbury House, London Wall,  
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 Stephenson, Joseph, Queen Street Chambers, Peterborough.  
 Stoker, T. A., Pearl Chambers, East Parade, Leeds.  
 Storey, R. G., 8, Oxford Chambers, St. Stephen Street, Bristol.  
 Stott, W., 4, Carlton Range, Gorton, Manchester.  
 Sturges, H. H., 1, Guildhall Chambers, 31, Basinghall Street,  
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 Tamplin, J., Westgate Chambers, Newport, Mon.  
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 Townsend, C., 8, Parkinson's Chambers, Market Street, Bradford.  
 Townsend, H., 16, Weston Park, Crouch End, London, N.8.  
 Tullett, W., Market Place, Darlington.  
 Tunbridge, S. T., 6, South Quay, Great Yarmouth.  
 Tyler, G. H., Newton Chambers, 43, Cannon Street,  
 Birmingham.  
 Vizard, L., 2, Clarence Parade, Cheltenham.  
 Vizard, L. N., 2, Clarence Parade, Cheltenham.

Walker, G. H., 37, Southgate, Halifax.  
 Walker, Percy H., 4, Park Place, Cardiff.  
 Walker, R. B., 1, Richmond Terrace, Blackburn.  
 Wallace, W. D., 48, Loughborough Road, Kirkcaldy.  
 Walters, W. L. J., Masonic Chambers, Gillingham, Dorset.  
 Walters, W. T., Middle Street, Yeovil.  
 Walton, A., 7, Bond Place, Leeds.  
 Ward, A., 21, Bridge Street, Bradford.  
 Wareing, John, 11, Chapel Street, Preston.  
 Warmington, W. H., Overbury, Tewkesbury.  
 Warren, F. J., 3, Victoria Place, Haverfordwest.  
 Watson, A., County Buildings, 4, Cannon Street, Manchester.  
 Watson, O. A., 24/26, Corridor Chambers, Market Place, Leicester.  
 Waud, N., 37, Market Street, York.  
 Webb, E., 34, Grand Parade, Brighton.  
 Wells, C. H., Independent Buildings, 21, Fargate, Sheffield.  
 West, H. W., 41, Cheapside, London, E.C.2.  
 White, A. M., 28, St. Mary's Place, Newcastle-on-Tyne.  
 White, E. G., Bank Chambers, Lammas Street, Carmarthen.  
 White, J. C., 53, High Street, Sutton, Surrey.  
 White, Percival, 6, Sussex Terrace, Princess Square, Plymouth.  
 Williams, E. J., Exchange Buildings, 14, Lowther Street, Carlisle.  
 Williams, E. R., 39a, Prince's Buildings, 81, Dale Street, Liverpool.  
 Williams, L. D., Exeter House, Bute Street, Cardiff.  
 Williamson, J. H., Market Place, Ashton-under-Lyne.  
 Wilson, Sir Charles H., Wilson's Chambers, 7, Greek Street, Leeds.  
 Windle, R. S., Midland Bank Chambers, Barnoldswick.  
 Witty, R. A., 6, Dowgate Hill, Cannon Street, London, E.C.4.  
 Wolstenholme, E. J., 36, Yorkshire Street, Rochdale.  
 Wood, D., 22, Craven Avenue, Ealing, London, W.5.  
 Wood, H., 179, Dock Street, Newport, Mon.  
 Woodhead, A. C., 3, Wesley Street, Otley.  
 Woolley, F., 6, Portland Street, Southampton.  
 Yearsley, A., 84, Warrington Street, Ashton-under-Lyne.

## COMPANIES (WINDING-UP).

### The Companies (Board of Trade) Fees Order, 1927.

The following Order has been issued under date January 10th, 1927:—

The Lord Chancellor and the Treasury, in pursuance of the powers and authorities vested in him and them respectively by sect. 237 of the Companies (Consolidation) Act, 1908, sect. 2 of the Public Offices Fees Act, 1879, and all other powers enabling him or them in this behalf, do hereby, according as the provisions of the above mentioned enactments respectively authorise and require him and them, make, concur in, and sanction the following Order:—

1.—The fees and percentages set out in Tables A and B annexed to this Order in respect of proceedings in the winding-up of companies, shall be taken in the office of the Board of Trade, or of any Official Receiver, or of the Registrar of Companies, as the case may be in accordance with and subject to the directions contained in the said tables.

2.—Where the head office of the company being wound up is situated out of England, and the liquidation takes place partly in England and partly elsewhere, or where the Court has sanctioned a reconstruction of the company or a scheme of arrangement of its affairs, or where for any other reason the Official Receiver satisfies the Board of Trade that the fees in the said Table B would be excessive, such reduction may be made in the said fees as may, on the application of the Board of Trade, be sanctioned by the Treasury.

3.—The Order dated December 2nd, 1903, prescribing a scale of fees under the Companies (Winding-up) Act, 1890, and the Order dated December 30th, 1911, prescribing a scale of fees under the Companies (Consolidation) Act, 1908, so far as they are still in force, and the Companies (Winding-up) Fees (Amendment) Order, 1923, shall be annulled.

4.—The fees mentioned in Table A shall be taken in stamps; the fees and percentages mentioned in Table B shall be taken in money.

5.—(1) The documents to be stamped shall be as provided in Table A.

(2) The stamps shall be adhesive stamps over-printed with the words "Companies (Winding-up)."

(3) The proper officer shall cancel every adhesive stamp by defacing it in indelible ink with a hand stamp bearing the word "Cancelled" and the date of cancelling.

6.—Wherever practicable the stamp shall be affixed or the money paid in respect of every fee before the proceeding is had in respect of which the fee is payable.

7.—This Order may be cited as the Companies (Board of Trade) Fees Order, 1927, and shall come into operation on January 24th, 1927.

TABLE A.

	£	s.	d.	Document to be stamped.
1. On an application by a committee of inspection to the Board of Trade for a special bank account ..	1	0	0	The application.
2. On an order of the Board of Trade for a special bank account ..	2	0	0	The order.
3. On an application by a liquidator to an Official Receiver acting as a committee of inspection ..	0	10	0	The application.
4. On a bond with sureties ..	0	10	0	The bond.
5. On an application to the Board of Trade—				

(a) Under sect. 15 of the Companies (Winding-up) Act, 1890, or sect. 224 of the Companies (Consolidation) Act, 1908, for payment of money out of the Companies Liquidation Account; or

(b) After six months from the date of issue for the re-issue of a lapsed cheque, money order or payable order in respect of moneys standing to the credit of that account:—

Where the amount applied for does not exceed £1 .. ..	0	1	0	The application.
Where the amount applied for exceeds £1 .. ..	0	2	6	The application.

6. (a) On an application to inspect liquidator's statement lodged with the Registrar of Joint Stock Companies under sect. 15 of the Companies (Winding-up) Act, 1890, or sect. 224 of the Companies (Consolidation) Act, 1908 .. ..	0	1	0	The application.
(b) For a copy of, or extract from, such statement, each folio of 72 words or figures .. ..	0	0	4	The copy.
7. For the insertion in the <i>London Gazette</i> of a notice relating to a company which is being wound up by the Court .. ..	0	7	6	The notice.

TABLE B.

I.—On the audit of the Official Receiver's or liquidator's accounts by the Board of Trade, a fee according to the following scale on the amount brought to credit, including the produce of calls on contributories, but after deducting (1) money received and spent in carrying on the business of the company, and (2) amounts paid by the Official Receiver or liquidator to secured creditors (other than debenture holders):—

On the first £5,000 or fraction thereof ..	1½ per cent.
On the next £95,000 ..	1 ..
" " £400,000 ..	½ ..
" " £500,000 ..	¼ ..
Above £1,000,000 ..	⅛ ..

II.—Where the Official Receiver acts as provisional liquidator only:—

(a) Where no winding-up order is made upon the petition, or where a winding-up order is rescinded, or all further proceedings are stayed prior to the summoning of the statutory meetings of creditors and contributories:—

Such amount as the Court may consider reasonable to be paid by the petitioner, or by the company as the Court may direct, in respect of the services of the Official Receiver as provisional liquidator.



(b) Where a winding-up order is made but the Official Receiver is not continued as liquidator after the statutory meetings of creditors and contributories:—

(1) In respect of every 10 members, creditors and debtors, and every fraction of 10 up to 1,000 .. .. . £0 15 0  
For every 10 or fraction of 10 above 1,000 0 7 6

Provided that where the net assets of the company, including uncalled capital, are estimated in the statement of affairs not to exceed £500, three-fifths of the above fee only shall be charged.

(This fee to include cost of official stationery, printing, books, forms and inland postages.)

(2) On the value of the company's property as estimated in the statement of affairs, after deducting (in cases where a person other than the Official Receiver has, prior to the making of a winding-up order, been appointed receiver for debenture holders) the amount due to debenture holders:—

On the first £5,000 or fraction thereof 1½ per cent.  
On the next £20,000 " " ½ "  
" £75,000 " " ¼ "  
Above £100,000 .. .. . 1/10 "

III.—Where the Official Receiver acts as liquidator of the company and a special manager is appointed (to include the Official Receiver's services as provisional liquidator):—

Such amount as the Court, on the application of the Official Receiver, with the sanction of the Board of Trade, may consider reasonable.

IV.—In all other cases where the Official Receiver acts as liquidator of the company (to include his services as provisional liquidator):—

(1) In respect of every 10 members, creditors and debtors, and every fraction of 10, £1 10s.

Provided that where the net assets of the company, including uncalled capital, do not exceed £500, three-fifths of the above fee only shall be charged.

(This fee to include cost of official stationery, printing, books, forms and inland postages.)

(2) Upon the total assets, including produce of calls on contributories, realised or brought to credit by the Official Receiver, after deducting sums on which fees are chargeable under Number V of this table, and not being moneys received and spent in carrying on the business of the company:—

On the first £1,000 or fraction thereof .. 6 per cent.  
On the next £1,500 " " .. 5 "  
" £2,500 " " .. 4 "  
" £5,000 " " .. 3 "  
" £90,000 " " .. 2 "  
Above £100,000 .. .. . 1 "

(3) On the amount distributed in dividend or paid to contributories, preferential creditors and debenture holders by the Official Receiver, half the above percentages.

V.—Where the Official Receiver collects, calls or realises property for debenture holders, or other secured creditors:—

The same fees as under Number IV (2) and (3) of this table to be paid out of the proceeds of such calls or property.

VI.—Where the Official Receiver performs any special duties not provided for in the foregoing tables:—

Such amount as the Court, on the application of the Official Receiver, with the sanction of the Board of Trade, may consider reasonable.

VII.—Travelling, keeping possession, law costs and other reasonable expenses of the Official Receiver, the amount disbursed.

VIII.—On every payment under sect. 15 of the Companies (Winding-up) Act, 1890, or under sect. 224 of the Companies (Consolidation) Act, 1908, of money out of the Companies Liquidation Account, threepence on each pound or fraction of a pound to be charged as follows:—

Where the money consists of unclaimed dividends, on each dividend paid out.

Where the money consists of undistributed funds or balances, on the amount paid out.

## Incorporated Accountants' Students' Society of London.

### Syllabus of Lectures and Discussions for the Spring Session:—

1927.

- Feb. 9th. Lecture, "Bankruptcy and Liquidations," by Mr. W. H. Grainger, Incorporated Accountant, Chief Accountant Prudential Assurance Company, Limited. *Chairman*: Mr. William Strachan, Incorporated Accountant.
- Feb. 16th. Lecture, "Some considerations affecting Liability on Income arising abroad," by Mr. A. S. Allen, Incorporated Accountant. *Chairman*: Mr. Raymond Needham, Barrister-at-Law.
- Feb. 22nd. Lecture, "Some Principles of Economics and their importance to Commerce and Industry," by Mr. H. E. Davis, M.C., Incorporated Accountant. *Chairman*: Mr. W. H. Coates, LL.B., B.Sc.(Econ.).
- Feb. 28th. Joint Meeting with the Chartered Secretaries Students' Society.—Subject; "Mock Shareholders Meeting." *Chairman*: Mr. R. D. Peters, F.C.I.S.
- Mar. 9th. Lecture, "The Transfer of Contractual Rights," by Mr. C. A. Sales, LL.B., Incorporated Accountant. *Chairman*: Mr. J. Robinson, Incorporated Accountant.
- Mar. 14th. Lecture, "The Accounts of Rubber and Tea Companies," by Mr. E. W. Braddy, A.C.A., Incorporated Accountant. *Chairman*: Mr. A. A. Garrett, B.A., B.Sc., Secretary of the Society of Incorporated Accountants and Auditors.
- Mar. 22nd. Lecture, "Education and Registration for the Profession," by Mr. Walter Holman, Incorporated Accountant. *Chairman*: Mr. E. Cassleton Elliott, Incorporated Accountant.
- Mar. 29th. Lecture, "The Law relating to Clubs and other un-incorporated Associations," by Sir Henry Slessor, K.C., M.P. *Chairman*: Sir James Martin, Incorporated Accountant.

All the meetings are to be held at 6.30 p.m. at Cordwainers' Hall, No. 7, Cannon Street, London, E.C.4.

## THE PUBLIC TRUSTEE (CUSTODIAN TRUSTEE) RULES, 1926.

The following Rules have been issued by the Lord Chancellor under date November 12th, 1926:—

1.—Rule 30 of the Public Trustee Rules, 1912, is hereby revoked, and the following rule is substituted therefor:—

"30.—(1) Any corporation constituted under the law of the United Kingdom or of any part thereof and having a place of business there and empowered by its constitution to undertake trust business, and being either—

"(a) A company incorporated by special Act or Royal Charter, or

"(b) A company registered (whether with or without limited liability) under the Companies (Consolidation) Act, 1908, having a capital (in stock or shares) for the time being issued of not less than £250,000, of which not less than £100,000 shall have been paid up in cash, or

"(c) A company registered without limited liability under the Companies (Consolidation) Act, 1908, whereof one of the members is a company within any of the classes hereinbefore defined

shall be entitled to act as a custodian trustee.

"(2) Any corporation constituted under the law of the United Kingdom or of any part thereof and having its place of business there, and being either—

"(a) A company established for the purpose of undertaking trust business for the benefit of His Majesty's Navy, Army, Air Force or Civil Service, or of any unit department member or association of members of any one or more of those Services and having among its directors or members any persons appointed or nominated by the Board of Admiralty, the Army Council, the Air Council or any Department of State or any one or more of those departments, or

"(b) A company authorised by the Lord Chancellor to act in relation to any charitable ecclesiastical or public trusts as a trust corporation

shall be entitled to act in relation to such business or trusts as a custodian trustee.

"(3) In this rule the 'United Kingdom' means Great Britain and Northern Ireland; 'trust business' means the business of acting as trustee under wills and settlements and as executor and administrator; 'share capital' includes stock."

2.—The Public Trustee (Custodian Trustee) Rules, 1925, are hereby revoked.

3.—These rules may be cited as the Public Trustee (Custodian Trustee) Rules, 1926.

## Scottish Notes.

(FROM OUR CORRESPONDENT.)

### The late Mr. Wm. Robertson, F.F.A., F.S.A.A.

It is with great regret we announce the somewhat sudden death of Mr. William Robertson, F.F.A., F.S.A.A., Edinburgh, which took place on December 22nd last, at the age of 72. Mr. Robertson, who was a well known actuary and Incorporated Accountant, was an early member of the Scottish Institute of Accountants (now the Scottish Branch of the Society). He was a Vice-President of the Scottish Branch, and took an active interest in all matters connected with the Society in Scotland. A regular attender at meetings of the Scottish Branch, he will be much missed.

### Meeting of Scottish Council.

A meeting of the Scottish Council was held in Glasgow on the 28th ult., Mr. D. Hill Jack, President of the Branch, in the chair. There were present: Mr. Stewart Seggie (Edinburgh); Dr. John Bell, Mr. R. T. Dunlop, Mr. W. Davidson Hall, Mr. P. G. S. Ritchie, Mr. E. Hall Wight (Glasgow); Mr. J. T. Morrison (Coatbridge); Mr. E. Mortimer Brodie (Port Glasgow); Mr. W. L. Pattullo (Dundee); Mr. W. J. Wood (Perth); and Mr. James Paterson, Secretary. Apologies for absence were intimated from Mr. R. Young (Elgin); Mr. A. Scott Finnie (Aberdeen); and Mr. Wm. Houston (Glasgow). The Scottish Council received with great regret the announcement of the death of Mr. Wm. Robertson, F.F.A., F.S.A.A., Vice-President, and placed on record their sincere sympathy with Mr. Robertson's relatives. A number of applications from candidates in Scotland were remitted to the Examination and Membership Committee, or otherwise disposed of. Other business of interest to the members in Scotland was also under consideration.

### Glasgow Students' Society.

Mr. Alfred Palmer, Incorporated Accountant, Glasgow, delivered on 12th ult. a Lecture on "The Elements of Consolidated Balance-Sheets," under the auspices of the Incorporated Accountants' Students' Society of Glasgow. There was a large attendance. Mr. E. Mortimer Brodie, Incorporated Accountant, Port Glasgow, occupied the chair. The Lecturer referred to the tendency to consolidation in industry, and explained the various methods whereby limited companies may be combined so as to form a co-ordinated

undertaking. The holding company method of obtaining control had many advantages over the amalgamation or absorption method, and was now being widely adopted in this country. Control of companies' operations could be secured without interfering with debenture holders and preference shareholders, and in most cases only the majority of the ordinary shares need be acquired. The presentation of the balance-sheet and accounts of a holding company was a matter of extreme importance both to investors and creditors. Consolidated balance-sheets were not very widely used in this country, though they had long been an every day feature of American accounting. The Lecturer explained and illustrated by specimen accounts the construction of consolidated balance-sheets embracing the assets and liabilities of the parent and subsidiary companies. After remarks by Mr. James Paterson, Mr. P. C. McAuslan (Ayr), and others, a cordial vote of thanks was given to the Lecturer for his instructive address.

### Accountancy and Robert Burns.

In the last week in January—to be precise, on the 25th of that month generally—Scotsmen all the world over remember, and celebrate, the birth of their national poet. We are interested in noting the publication of a brochure entitled "Burns and the Bible," by Mr. W. D. Fisher, F.S.A.A. (Glasgow). We also note that the Caledonian Society of North Staffordshire held their annual dinner at Ashby Hall on the 25th, when Mr. J. Paterson Brodie, F.S.A.A. (Burslem), occupied the chair, Mr. J. Stewart Seggie, C.A., F.S.A.A. (Edinburgh), delivered the oration on "The immortal memory of Robert Burns," and Mr. James Paterson, F.S.A.A., Secretary of the Scottish Branch, replied for the visitors.

### Burdens of Taxation.

A lecture was given in Edinburgh on 10th ult. on "Economics in relation to Banking and Finance," under the auspices of the Institute of Bankers in Scotland, by Mr. D. T. Jack, M.A., Lecturer on Political Economy in Glasgow University. After dealing with problems of Imperial and local taxation, the Lecturer said that before the war Imperial and local taxation represented 10 per cent. of the national income as compared with the present proportion of roughly 20 per cent. The rate burdens were not equitably apportioned. There were wide variations in different districts, even in respect of local services, such as education and poor relief, which had been defined as "national" in their scope and character. The Lecturer discussed various proposals for equalising these burdens. He called for increased watchfulness in Imperial and local expenditure. The position was one which, as the Dundee report indicated, called for an expert investigation rather than, as in the past, for the consideration of intelligent amateurs.

## Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B.&C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

**INSOLVENCY.****Re Wait.***Claim to Specific Performance against Trustee in Bankruptcy.*

By a c.i.f. contract W. bought 1,000 tons of wheat, and by a later contract he sold 500 tons to sub-purchasers. The wheat was shipped in bulk and there was no appropriation thereof under the second contract. W. subsequently was adjudicated a bankrupt. The Court of Appeal held that as the wheat sold was neither specific nor ascertained goods within the meaning of sect. 52 of the Sale of Goods Act, 1893, the sub-purchasers were not entitled to specific performance but must rely on their common law remedy and prove in the bankruptcy for damages for breach of contract.

C.A.; (1927) 163 L.T.N., 20.)

**REVENUE.****Mitchell v. B. W. Noble, Limited.***Payment to Retiring Director.*

Rowlatt (J.) held that a payment by a company to a director in order to induce him to retire, in circumstances in which the other directors had come to the conclusion that it was essential in the interests of the company that he should retire, was a business expense deductible from the company's profits for purposes of income tax.

(K.B.; (1926) 43 T.L.R., 100.)

**B. W. Noble, Limited, v. Mitchell.***Company Resident in England but Business carried on abroad.*

The appellants, who were insurance and re-insurance brokers and agents in London, had an office in Paris for the purpose of direct insurance on behalf of companies for which it acted as agents, and the appellants in some cases represented the same companies in London and Paris. A resident director of the appellants had the sole conduct of the Paris business under a power of attorney. The results of the Paris business were incorporated in the appellants' balance-sheets, but no part of the French profits was remitted to London.

Rowlatt (J.) held that as the power of attorney did not, except as against third parties, divest the directors in London of their power of control over the French business, the appellants were assessable to income tax under Case I of Schedule D on the whole of their profits, including those of the Paris office.

(K.B.; (1926) 43 T.L.R., 102.)

**Ormond Investment Company v. Betts.***Foreign Possessions and Basis of Assessment.*

The Income Tax Act, 1918, Schedule D, Case V, Rule 1, provides: "The tax in respect of income arising from stocks, shares or rents in any place out of the United Kingdom shall be computed on the full amount thereof on an average of the three preceding years, as directed in Case I, whether the income has been or will be received in the United Kingdom or not, subject, in the case of income not received in the United Kingdom, to the same deductions and allowances as are provided in Rule 1 of the rules applicable to Case IV, and the provisions of this Act, including those relating to the delivery of statements, shall apply accordingly."

The Crown contended that this rule incorporated by reference Rule 1 (2) applicable to Cases I and II of Schedule D, which provides: "Where the trade has been set up and commenced within the said period of three years, the computation shall be made on the average of the profits or gains for one year from the period of the first setting up of the same, and where it has been set up and commenced within the year of assessment, the computation shall be made according to the rules applicable to Case VI."

Rule 2 of the rules applicable to Case VI provides: "The computation shall be made, either on the full amount of the profits or gains arising in the year of assessment, or according to an average of such a period, being greater or less than one year, as the case may require, and as may be directed by the Commissioners."

Rowlatt (J.) held that the words "as directed in Case I" did not incorporate into Rule 1 of Case V Rule 1 (2) applicable to Cases I and II of Schedule D. There was, therefore, no provision for applying to income under Rule 1 of Case V an average of any shorter period than three years. The appellant company was therefore entitled to be assessed on the average of the three preceding years notwithstanding the fact that it had not been in existence before the year in which the income was actually received.

(K.B.; (1927) L.T.N., 53.)

**Martin v. Lowry.***Profits of Trade.*

The appellant, who was an agricultural machinery merchant, bought a gigantic consignment of linen and set to work to make people buy it, and he succeeded in selling it within a year by organising a vast activity for that purpose. He was assessed to income tax under Schedule D on his profits on the sale of the linen, and on appeal to the Special Commissioners he contended that he did not carry on any trade in connection with linen, that the transaction was an isolated one, and that the profit was not an annual profit chargeable to income tax. The Commissioners held that in exercising these activities the appellant was for the time being carrying on a trade, the profits of which were chargeable to income tax.

The House of Lords in affirming the decision of the Court of Appeal (see *Incorporated Accountants' Journal*, February, 1926, p. 200) held that there was evidence on which the Special Commissioners could find the transaction to be in the nature of a trade, and that the fact of the profits being the income of a trade and belonging to the year of assessment was enough to make the profits "annual" within Case VI of Schedule D and the decision of the Special Commissioners must be affirmed.

(H.L.; (1926) 43 T.L.R., 116.)

**Borthwick v. Nolder.***Date to which Accounts are usually made up.*

The appellant company prior to 1920, who had made up their accounts to September 30th, on August 31st, 1921, made up an account for the period of eleven months ending on that date. Subsequently they made up their accounts on March 31st of every year, and on March 31st, 1922, an account was made up for the seven months ending on that date. Thereafter accounts were made up annually to March 31st. Appellant company was assessed to income tax for the year ending April 5th, 1923, on the average of the profits for the three years ending September 30th, 1921, made up as follows:—

- One year to September 30th, 1919.
- One year to September 30th, 1920.
- Eleven months to August 31st, 1921.
- One-seventh of the period of seven months to March 31st, 1922.

The company contended that the proper method was to take—

- Six-twelfths of year ended September 30th, 1919,
- One year ended September 30th, 1920,
- Eleven months to August 31st, 1921,
- Seven months to March 31st, 1922,

thus making the period begin on April 1st, 1919, and end on March 31st, 1922.

The General Commissioners confirmed the assessment.

Rowlatt (J.), on appeal by the company, held that the date to which the accounts had been "usually" made up meant the date to which they had as a matter of custom been made up, and as that date was September 30th the appeal failed.

(K.B.; (1926) L.T.N., 452.)